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UNIFORM MUNICIPAL ACCOUNTING

Proceedings of a Second Conference held in the City of Washington, February 13 and 14, 1906 under the auspices of the United States Bureau of the Census

WASHINGTON
Government Printing Office
1906

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CALL FOR THE CONFERENCE.

On January 17, 1906, Director S. N. D. North, Bureau of the Census, Department of Commerce and Labor, sent out the following invitation to comptrollers, auditors, treasurers, and others interested in the uniform classification of municipal accounts.

DEPARTMENT OF COMMERCE AND LABOR,
BUREAU OF THE CENSUS,
Washington, D. C., January 17, 1906.

DEAR SIR:

I take pleasure in inviting you to attend the second conference of comptrollers, auditors, treasurers, and others interested in the uniform classification of municipal accounts and comparable municipal statistics, to be held on February 13 and 14, 1906, in the hall of the Arlington Hotel, Washington, D. C. This conference is called at the request of the committee appointed by the first one, which was held in Washington in November, 1903. Its object is to aid and promote the adoption of such uniform classification of accounts as will facilitate comparisons of the statistics of different cities.

The excellent results of the first conference are partially reflected in Bulletin 20, issued by the Census Bureau some months ago, containing the results of the census municipal investigation for the fiscal years 1902 and 1903. A similar report for 1904 is now in preparation. The second conference is called prior to undertaking the report for 1905, in the belief that it will lead to beneficial results both for the cities which participate and for the Census Bureau.

A preliminary programme of the topics suggested for discussion accompanies this invitation. A more detailed programme, with list of speakers, will be arranged prior to the meeting.

The headquarters of the conference will be at the Arlington Hotel, where all the sessions will be held. The courtesies of the Cosmos Club, which is situated near the hotel, are, by the kindness of its officers, extended to all attending the conference.

I trust that you may find it convenient to be present at this conference and take part in its deliberations. If you are unable to attend, suggestions along the line of the programme will be welcome.

I shall be glad to have you extend this invitation to such other officials and economists of your city as you may find interested in the subject.

Please address communications to Mr. L. G. Powers, Bureau of the Census, Washington, D. C., the chief statistician who has charge of the census investigation concerning municipal finance.

Very respectfully, (Signed) S. N. D. NORTH,
Director.

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CONFERENCE CONCERNING UNIFORM MUNICIPAL ACCOUNTING

In response to the foregoing invitation the following gentlemen met in the city of Washington in the banquet hall of the Arlington on Tuesday, February 13, 1906:

H. L. Austin, Attorney Representing New York State Comptroller, Catskill, N. Y.
M. N. Baker, Associate Editor Engineering News, New York, N. Y., and President Board of Health, Montclair, N. J.
James F. Beard, City Treasurer, Somerville, Mass.
Howard C. Beck, Deputy City Comptroller, Detroit, Mich.
Louis Betz, Comptroller, St. Paul, Minn.
L. A. Cavanaugh, Deputy Auditor City and County of Denver, Denver, Colo.
Richard M. Chapman, Expert Accountant, Comptroller's Department, New York, N. Y.
Harvey S. Chase, Public Accountant, Boston, Mass.
Frederick A. Cleveland, Accountant, New York, N. Y.
Owen Copelin, Treasurer, Harrisburg, Pa.
Frederick B. DeBerard, Merchants' Association of New York, New York, N. Y.
B. I. Dixon, State Auditor, Raleigh, N. C.
James L. Dyer, Collector and Treasurer, Portland, Me.
W. McV. Evans, Auditor and Accountant, Richmond, Va.
James Blair Farrar, Special Accountant, Roanoke, Va.
Thomas B. Frost, City Treasurer and Collector of Taxes, Chelsea, Mass.
Willett B. Gano, City Clerk, Orange, N. J.
J. R. Garrison, Auditor, District of Columbia.
Harry W. Gough, Comptroller, Harrisburg, Pa.
W. D. Gridley, Chief Accountant, Detroit, Mich.
Edward M. Hartwell, Secretary Statistics Department, Boston, Mass.
Harry B. Henderson, State Examiner, Cheyenne, Wyo.
Lyman C. Hughes, Comptroller, Newcastle, Pa.
James E. Kane, Deputy Treasurer, Rochester, N. Y.
Daniel W. Kenney, Auditor, Holyoke, Mass.
J. O. Lea, City Treasurer, Charleston, S. C.
O. S. Luffman, City Comptroller, Schenectady, N. Y.
Henry B. F. Macfarland, District Commissioner, Washington, D. C.
Duncan MacInnes, Expert Accountant, Comptroller's Department, New York, N. Y.
F. H. Macpherson, Chartered Accountant, Detroit, Mich.
Fred W. Martin, Comptroller, South Bend, Ind.
J. J. McCardy, Auditor, Post Office Department, Washington, D. C.
Herman A. Metz, Comptroller, New York, N. Y.
Charles L. Moll, Comptroller, Reading, Pa.
Hart Momsen, Expert Chief of Division, Bureau of the Census, Washington, D. C.
S. N. D. North, Director of the Census, Washington, D. C.
L. G. Powers, Chief Statistician, Bureau of the Census, Washington, D. C.

Thomas H. Pratt, Auditor and City Collector, Lincoln, Nebr.
Henry H. Rathyen, Accountant, New York, N. Y.
George N. Rex, Auditor, Pawtucket, R. I.
C. G. Rives, Comptroller, Shreveport, La.
Fred L. Rowe, Auditor, Haverhill, Mass.
Walter J. Shepard, Treasurer, Buffalo, N. Y.
Joseph T. Tracy, Bureau of Uniform Accounting, Columbus, Ohio.
Henry E. Turner, Auditor Commonwealth of Massachusetts, Boston, Mass.
Alonzo Tweedale, Deputy Auditor, District of Columbia.
Walter M. Tyson, City Treasurer, Reading, Pa.
Harry T. Upham, City Auditor, Cambridge, Mass.
Thomas R. Watson, City Clerk, Passaic, N. J.
Fred F. Wilde, Deputy Comptroller, Milwaukee, Wis.
George B. Williams, Deputy Comptroller, Rochester, N. Y.
Charles F. Wilson, Auditor City and County of Denver, Denver, Colo.
Clinton R. Woodruff, Secretary National Municipal League, Philadelphia, Pa.

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PROCEEDINGS OF SECOND CONFERENCE.

FIRST SESSION, TUESDAY MORNING, FEBRUARY 13.

Mr. L. G. Powers, chief statistician, Bureau of the Census, called the meeting together at 10.25 a. m.

Mr. Powers. As presiding officer of the first conference called relating to this subject it is my pleasure to call you together, and I will open the meeting by requesting Mr. Henry B. F. Macfarland, one of the District Commissioners, to welcome you in behalf of the District of Columbia.

Mr. Macfarland. It is a great pleasure for me to address the persons here present. We are very glad indeed to have you here on such a delightful day; it is a typical Washington winter day. If the weather had been unfavorable, we should have placed the responsibility for it upon the Weather Bureau, which, however, does not belong to the District government; but whenever the weather is favorable, we take the credit for it. You see we know how to arrange facts so as to make a favorable report when we desire a favorable one, and an unfavorable report when that is desired.

I have read with a great deal of interest the report of the proceedings of the previous conference and, therefore, am fully informed on the subject of municipal accounting. I received a great many ideas from it, but, being an amateur, I had some difficulty in reconciling them, and I can not say yet that I know just what is the best system of municipal accounting. I hope, however, that at the close of this conference I shall have reached a conclusion in such a way that I shall know which is the best form for the statement of results.

The object which you have in view appeals to all of us, who have anything to do with municipal affairs, as a most important one. We are sure that all municipal officials wish success to the effort of standardizing general results of our municipal operations. It is most important that the citizen should be able to know precisely what the state of the business of his municipality is. That is business and nothing else. Here in Washington we are very fortunate in being able to treat it as a business and nothing else; but wherever it is carried on, it should be treated in just such a way that the citizen should know, or ought to be able to know, exactly what the

truth is about the affairs of his municipality. That is impossible unless the reports are made as you gentlemen desire that they should be made—that is, clearly and simply. It is important that we should have accurate municipal statistics, and in order to have them, we must have them stated in such a way that we can have accurate comparisons. Nothing is more misleading than comparisons of municipal statistics when, the names being the same, the things are different; and it is therefore impossible, with all due respect to our eminent chairman, at the present time to have absolutely accurate comparisons of municipal statistics.

"Figures will not lie" the proverb says, but even in the hands of the best of men, things which are not comparable may seem to lie where the names may be the same yet the things are different, and there is the difficulty with the comparison of municipal statistics at the present time.

I was very much gratified when an eminent member of this conference told me yesterday that he thought the reports of the District government are clear and understandable, and also that the District bookkeeping had met with the approval of the gentleman who suggested the Ohio uniform system of accounting. But we are looking for improvements; we are always looking for better definitions in the District, and we look confidently to you, gentlemen, for a uniform system which will benefit us as well as all the other municipalities of the country. I can think of no greater service to municipal accounting than that which you gentlemen can render.

Mr. Powers. The Director of the Census, Hon. S. N. D. North, will extend greetings in behalf of the Department of Commerce and Labor. [Applause.]

Mr. North. It is a pleasure and a privilege to join Commissioner Macfarland in welcoming to Washington so large and representative a body of the comptrollers, auditors, treasurers, and financial officers of our principal American cities. The Secretary of Commerce and Labor, upon whom this pleasure and privilege naturally devolve, is unavoidably absent from the city, and has charged me to assure you of his regret that he can not meet with you, and of his deep personal and official interest in the work you are about to undertake.

It is a great work—as great and important a work as any now on foot—to perfect and protect the American system of municipal self-government, and to emancipate it from some of the evils which encompass and discredit it.

As I understand it, the object you seek, in which the Census Office is earnestly striving to cooperate, may be concisely stated in the phrase, "the standardization of municipal accounting." As the financial officers of our municipalities, you have a natural pride in your business and a desire to apply to it the best and most scientific

methods. You also realize what a protection standardization will be to you in the discharge of your duties. Even more important, from the public point of view, is the practical, effective protection which uniform municipal accounting will afford against what is commonly known as municipal "graft."

The most prolific source of municipal graft, its securest hiding place, its most effective instrument in seeking immunity, is the chaos which exists in the classification of municipal accounts, and the absence of uniformity in municipal bookkeeping.

Another aspect of the subject can not fail to impress the thoughtful observer of present day conditions. There is a rising throughout the land, the result of systematic propaganda—a movement for municipal ownership and management of public-service utilities. Sooner or later we have got to face this question, and there is bound to be increasing experimentation along these lines. It is impossible intelligently to study and measure these experiments, until we possess definite standards by which to compare the results of private and public management of these utilities. In the existing chaos of municipal accounting this is impossible, and we grope and flounder in the dark. What an object lesson it would be, in the consideration of this impending question, if it were possible for the Census Office to present a complete statement of the relative sums which private corporations have paid and are paying for the use and monopoly of the public streets in the different cities of the land!

We have in the United States 175 cities with a population of 30,000 or more—the most magnificent group of cities, the wealthiest, most progressive, most prosperous group of cities in the world—and they are resting to-day under the stigma of being the most extravagantly and inefficiently governed group of cities. The financial officers of these cities annually collect and disburse a sum exceeding $765,000,000, or more than the annual cost of all the state governments, and more than the annual cost of maintaining the National Government. These cities have a bonded or funded indebtedness equaling $1,500,578,000, after deduction for sinking fund assets—an indebtedness greater than that of the United States. This municipal indebtedness is increasing at an enormous rate, probably not less than $150,000,000 a year.

Until very recently, and since this general movement was organized, no two of these cities have kept their books in such shape that receipts and expenditures for particular purposes can be compared with similar receipts and expenditures of other municipalities. It goes without saying that, given half a dozen cities of practically the same population and the same geographic and climatic conditions, the costs of government—for police, fire, and many similar services—ought to be substantially the same.

If there can be a standardization of municipal accounts, it will be easy to ascertain from the annual Census bulletins the exact amount by which any particular service in any one of these cities exceeds the corresponding cost in the others. Wherever the cost is shown to be excessive it will appear at once that something is wrong in the government of that city. It will then be possible to put the public finger on the precise spot where the people's money is being wasted or stolen.

I know a certain corporation which has been remarkably successful in the management of street railroads operated under all sorts of conditions. It has been able to place many roads upon a paying basis which were turned over to it in a state of apparently hopeless bankruptcy. It has done this by standardizing the expense accounts. These expenses are classified minutely. Each road is required to furnish a weekly statement of expenditures under each head, and when any road shows for any item an unusual deviation from the average cost for all the roads, an agent is sent to find out what is the matter. Neither graft nor waste is possible anywhere under such a system, properly supervised. The expenditures of American cities should be checked in the same way, and with the same results.

To make this possible there must be agreement upon the proper classification of municipal accounts; there must be a standardization of municipal bookkeeping. When that is accomplished, graft and waste can be driven from their chief citadel of refuge.

My attention was first drawn to the possibilities for good which lie in these annual Census reports on municipal statistics, when a proposition to substitute biennial reports for those now made annually was under consideration in the Office. We sought outside advice on the question, and I was amazed at the protest. I was told that these comparative municipal statistics afforded the most useful check that existed upon the growth of municipal expenditures; that students of the subject regarded their annual compilation as indispensable for the close study and rational regulation of municipal finance; and that the chief criticism upon them was the fact that the statistics could not be so classified as to make them comparable, city with city.

This led to a careful study in the Census Office of possible methods of meeting the criticism. It was seen that the practical way was to enlist the active cooperation of the municipal officers themselves, and that the Census Office might be made the agency or clearing house through whose reports standardization might be gradually developed and extended. That is the origin of these conferences.

I may add, with what I hope is a pardonable pride, that this is only one of many directions in which the Census Office is proving a potent instrumentality for the standardization of official statistics. It is a field of usefulness not thought of when the effort to establish a permanent Census Office was finally successful. It is destined to prove the

most valuable result of that legislation. Nowhere can this function be utilized to greater public advantage than in the field which especially concerns this conference. Your presence here proves your patriotic interest in the practical solution of the greatest problem which confronts the American people to-day—the problem of the honest, efficient, and economical conduct of the American municipality under democratic institutions.

Mr. POWERS. I do not see the chairman of the advisory committee, Mr. McGann; is he present? It is with keen regret that I note his absence. I have called this convention to order as the chairman of the previous meeting, but it seems to me that the first work to-day should be the election of a chairman and a secretary, and unless there is objection I will call for the election of these officers.

Mr. HENDERSON. Mr. Chairman and gentlemen of the conference, I beg to nominate Hon. L. G. Powers, who presided so kindly, and who made the last conference such a wonderful success, as chairman of this conference. I move the nomination of Mr. Powers.

Mr. CHASE. I second the motion.

Mr. HENDERSON. As many of you as are in favor of Mr. Powers's election to the position of chairman of this convention will please give your assent by saying "Aye;" contrary, "No." The "Ayes" have it. Mr. Powers, you have been unanimously elected to the position of chairman of this convention.

Mr. POWERS. Gentlemen, I take this to be but another expression of the kindly feeling that has been uniformly shown by these officials in their relations with the Census Bureau. It has been the greatest satisfaction of my life that on the part of the city officials throughout this country there has been nothing in this movement but a desire to cooperate with the Census Bureau.

We had many extraordinary questions that had to be discussed, and that were discussed earnestly because we looked upon them from different standpoints; but with all this discussion there was a vital interest in it, and there has been, so far as I know, nothing but kindly feeling and the greatest of cooperation. In this spirit I meet you to-day, and welcome you to this conference, and trust that this work, like that of the preceding conference, will help us and will help you—will help us to perfect our work, for it is not what we would like it to be—perfect. We are, however, working in the right spirit.

In behalf of the Census Bureau and our men, whom you have met cordially and to whom you have extended all the aid that was in your power to render, I thank you for this continued effort and for your hearty cooperation.

Mr. NORTH. Mr. Chairman, I think the conference will be fortunate if it can command the services of the secretary of the last conference, and I nominate Doctor Hartwell, of Boston.

Mr. HENDERSON. I second the nomination.

The CHAIRMAN. You have heard the motion that Doctor Hartwell, of Boston, be made the secretary of the conference. All those in favor of this motion will signify the same by saying "Aye;" contrary, "No." The "Ayes" have it.

Doctor HARTWELL. Gentlemen, I am very much obliged to you for the honor which you have conferred upon me, and for the opportunity of being kept busy here with you, as I am rather fearful that otherwise I might be tempted to spend my time in mischief.

The CHAIRMAN. From our experience at the last conference, I suggest that the conference appoint a committee on programme, such as we had two years ago. While we have a tentative programme, we found two years ago that there were several members who wanted to have special matters brought up. In fact, some of those matters were the most interesting and the most valuable features of the conference. I therefore suggest that such a committee be appointed.

Mr. CHASE. I move that the chair appoint such a committee, to consist of ten members.

Mr. MACINNES. Have we not here a programme outlined as to what it is our purpose to do? I can not see the object in having a committee.

The CHAIRMAN. We have a programme in a general way; yes, that is very true.

Mr. MACINNES. The reason I asked the question is that at the last conference, held in November, 1903, such a committee was appointed because we had not any clear programme outlined, or laid down, and it was necessary to have a committee appointed. At that conference we had to wait many hours upon that committee. I believe a great deal of valuable time was lost in that way. We were then seeking to do our business by proxy instead of as a committee of the whole. From that experience, and recognizing that to-day we have a printed programme outlining our procedure, it seems to me that we should be more likely to lose than gain time by the appointment of such a committee, since the committee appointed for the purpose of determining what we should do might take several hours and we in the meantime be doing practically nothing. Therefore I think that it would save time if we did not have such a committee appointed.

The CHAIRMAN. You have heard the objection to the motion, made by our friend from New York.

Mr. HENDERSON. I think Mr. MacInnes is somewhat mistaken. I think the committee furnished us with some very valuable suggestions, which were necessary at that time. There was not very much delay, as the sessions continued all the time, even into the night. I think it is a wise policy to have a committee looking toward some definite end for the purpose of carrying out our programme.

UNIVERSITY OF CALIFORNIA

The CHAIRMAN. Is there any further discussion of the motion? If there is no further discussion or amendment, I will put the motion.

Mr. NORTH. Why not broaden the functions of that committee, and have any resolutions that may be suggested referred to that committee? There does not seem to be any necessity for more than one committee, and it might be well to have the committee to call upon, in the end, to formulate the action of this conference, and if it is entirely agreeable to the maker of the motion, I suggest that it be amended so as to broaden its scope.

The CHAIRMAN. If that is agreeable to all, the motion will be put as amended, so as to make this a committee on results as well as on arrangements. Is there any further discussion or amendment? All those in favor of the motion as amended will signify the same by saying "Aye;" contrary, "No." The motion prevails. I will announce the committee at a little later time.

We have on the programme, as arranged, as the first subject for the morning, the report of Dr. Edward M. Hartwell, of Boston, secretary of the advisory committee, who will speak on "The Present Situation Viewed in the Light of Events Since the Conference of 1903."

Doctor HARTWELL. Mr. Chairman and members of the conference, I am called upon to speak on "The Present Situation Viewed in the Light of Events Since the Conference of 1903." At that time we met with a feeling of hope, and now we do so with a feeling that our hopes have been abundantly fulfilled. This conference looks to be twice as large as that of 1903; at the same time we see here to-day many, if not most, of those who attended that conference. Those who attended the former conference could not fail to be impressed by its extraordinary avidity for work. Not only were our sessions numerous—five in two days—but they were even prolonged into the night by reason of the interest aroused by the interchange of views as to the municipal balance sheets, statements of assets and liabilities, classified schedules, and the like. Its results are to be found reflected in the tabular presentations of financial statistics in Census Bulletin 20, and in the large and representative attendance here and now at the recent invitation of the Bureau of the Census.

In order that we may realize the character of the course of events since 1903 and the significance of the present tendencies of the movement in whose sweep we find ourselves at this moment, I venture to call your attention to some facts that may seem matters of ancient history to not a few here present. The conference called by the Bureau of the Census in November, 1903, gave new force and direction to a movement which had been slowly but surely gaining ground for nearly ten years namely, the movement to make the public reports of municipal financial operations more simple, more intelligible, more complete, and more useful—or, in short, more comparable.

Prior to that movement there was a somewhat similar movement, beginning in 1878, for subjecting the accounts of counties and of state institutions to central control in certain states.

In 1878 the state of Minnesota established the office of state examiner. The examiner was charged with the duty of looking after county accounts, because they needed looking after; and empowered to prescribe uniform methods in keeping the accounts of state institutions and of county officials. North and South Dakota, admitted to the Union in 1889, followed the example of Minnesota by establishing state examiners; so did the state of Wyoming, which was admitted to the Union in 1890. In accordance with its constitution a state examiner was appointed in 1892, with jurisdiction and functions similar to those of the Minnesota examiner. The office of state examiner in Wyoming has been admirably filled from the first by our friend Mr. Henderson, who is a member of this as he was of the last conference. In 1891 the state examiner of Minnesota was given partial jurisdiction over the accounts and financial reports of the city of St. Paul, and since 1903 similar jurisdiction has been granted him over the accounts of the city of Minneapolis; but it does not appear that the present movement for securing uniform municipal accounting has been appreciably influenced by the example of Minnesota and her sister states, or by the institution in 1887 by the government of Massachusetts of the office of comptroller of county accounts.

The present movement is concerned distinctly with municipal accounts and reports. Its relation to the movement for standardizing county accounts is hardly more than one of succession in time. Although the second movement followed the first, it can not be shown that it developed out of it. Its origin is rather to be ascribed to that interest in matters pertaining to municipal government which was one of the distinctive features of political discussion in the United States during the last decade of the nineteenth century. That interest was first voiced by students and publicists rather than by comptrollers or accountants. The first definite suggestion for securing uniformity of classification in municipal accounts and reports which has come to my notice is found in the Annals of the American Academy of Political and Social Science for May, 1895, in an article by Prof. John R. Commons, a well-known student of social and economic questions. The article is entitled "State Supervision of Cities." The author recommended the establishment of a "state municipal board," to consist of the governor, attorney-general, and auditor of the state, ex officiis, together with six or ten unsalaried members, to be appointed by the governor, representing equally the two principal political parties, with terms of office from six to ten years. The duties proposed for the contemplated board were

chiefly supervisory. One of the principal agencies of the proposed board was the auditing department, to be composed of experts, with power to prescribe a system of bookkeeping, to inspect municipal books of account, and to make reports giving the comparative standing of all cities within its jurisdiction in the more important items of expenditures, revenues, tax rate, and debt.

In the course of the next three years futile attempts were made in several states to secure the creation of such boards, but Professor Commons's secondary suggestion, with regard to uniform municipal accounting, proved a fruitful one. In 1896 Mr. F. R. Clow, in an article entitled "Suggestions for the Study of Municipal Finance" in the Quarterly Journal of Economics, set forth a scheme for the classification of municipal accounts. Mr. Clow declared that "it would be Utopian to expect any considerable number of American cities even to make their regular financial reports on such a plan, or indeed on any other plan," and then went on to say that "the plan is nevertheless not so Utopian as it seems." The Federal Census has made a good beginning in municipal statistics. "If the statistics were made complete for the larger cities and for some typical small cities, etc., the most essential thing would be accomplished. If some well-known organization, like the National Municipal League or one of the great universities, should undertake such a work, many city governments could probably be induced to cooperate." Special interest attaches to the views of Mr. Clow, expressed in 1896, by reason of the part which the Federal Census and the National Municipal League have come to play in the field which looked comparatively hopeless ten years ago.

In the interval between 1896 and 1901 (when the National Municipal League became especially identified with the movement, through the institution of its committee on uniform accounting and statistics) various contributory influences served to quicken and spread interest in our subject. The proceedings of the National Municipal League for the years 1896–1900 contain no less than eleven papers or reports on various phases of the problem of securing uniformity in municipal accounts and reports. In the same period a dozen other national associations, notably the League of American Municipalities, the American Society of Civil Engineers, the American Economic Association, and the American Statistical Association were induced to pass resolutions or appoint special committees, with a view to securing practical results. An important step was taken in July, 1898, when an act of Congress was passed authorizing the United States Commissioner of Labor "to compile and publish annually an abstract of the main features of the official statistics of the cities of the United States having over 30,000 population." The original plan of the

department to base its tables upon published municipal reports was soon abandoned, owing to the confused and heterogeneous nature of such reports, and special agents were deputed by the Commissioner of Labor, Hon. Carroll D. Wright, to visit the fiscal officers of the cities within the scope of the investigation. Under this plan the Department of Labor published, in its bulletin, four series of extensive tables entitled "Statistics of Cities" for the years 1898, 1899, 1900, and 1901, respectively. The work of preparing similar statistics for subsequent years was taken over by the Bureau of the Census, which was placed on a permanent basis in the year 1902.

In 1901 the National Municipal League, as has been already mentioned, appointed a special committee "to give special consideration to the subject of uniform municipal accounts and statistics." That committee has played an active part in the movement ever since. Of the twelve persons who made up the original committee, four were or had been teachers of political science or political economy, three were auditors, two were public accountants, two held official posts under state or city governments, and one was a lawyer. As at present constituted, the committee includes six persons connected with colleges or universities, four public accountants, five public officials, two lawyers, and one editor. Of its eighteen members, eight have served continuously since 1901. The committee may be truthfully characterized as a working committee. It has added considerably to the stream of literature, and succeeded, in some measure at least, in throwing light upon the problems with which it has set itself to deal.

The policy of the committee has been tentative and elastic in its nature. From the first it has not attempted to elaborate a system of bookkeeping, but has sought to convince fiscal officers and the public of the feasibility of restating the results of customary and even antiquated systems of accounting (as reflected in the usual reports of comptrollers, etc.), in accordance with standard schedules devised to secure a reasonable degree of uniformity and comparability. It has developed gradually a series of such schedules, which are now termed the uniform, group-system schedules of the National Municipal League. These schedules, as regards their more important features, were derived, with some modifications, from a series of schedules published in 1899 by Prof. L. S. Rowe, of the University of Pennsylvania, in connection with the municipal programme adopted by the National Municipal League in that year, Doctor Rowe being one of the committee which drew up the municipal programme, in which precise and clear provision was made for the central administrative control of municipal accounts and reports.

The committee has served as a rallying point for students, officials, and practical men interested in the improvement of financial statistics, and has been instrumental, both as a committee and through the

efforts of individual members, in subjecting the schedules which it has recommended from time to time to the test of practical use. Certain of its members, in their professional capacity as expert accountants, have been influential in installing new systems of accounting and instituting improved forms of comptroller's report in Chicago, Minneapolis, and other cities, and also in bringing about the publication of restatements of comptrollers' or auditors' reports of Boston, Baltimore, Newton, and Cambridge, Mass., in accordance with the forms recommended by the committee. Its schedules have been adopted as the central part of the scheme of uniform accounts and reports established by law in the states of Ohio and New York. The committee has had cordial relations with the Department of Labor and the Bureau of the Census, and the latter has availed itself of the committee's recommendations and forms in the preparation of its Bulletin 20, 1905. The committee, besides providing a rallying point for those who were interested especially in the questions it was appointed to consider, has served as a sort of intelligence bureau and recruiting office combined. Evidence of its ubiquity and activity is not far to seek, inasmuch as eight of its members, including the chairman of this conference, are present here to-day.

When the Bureau of the Census undertook to carry forward the work originally begun by the Department of Labor in 1898, thanks to the movement whose growth I have sketched briefly, it found a goodly number of public officers, professional accountants, and zealous students ready to welcome its advent and to second its efforts. The Bureau, in gathering material for statistics relating to the wealth, debt, and taxation of cities of the United States for the year 1902, speedily acquired a realizing sense of the complexity and difficulty, as well as of the magnitude of its undertaking. Happily for our cause it promptly conceived the policy of securing the good will and enlisting the cooperation of municipal fiscal officers throughout the country. In pursuance of that policy the conference of 1903 was held in this city. The conference proved mutually beneficial to those who called it and those who answered the call. The deliberations of the conference, interesting and valuable in themselves, were rendered doubly influential through their dissemination by the Bureau of the Census. As a result of the conference the Bureau modified and improved its plan of campaign, recast somewhat its schedules and the code of instructions for its field agents, and determined to bring together into one publication on a common basis the statistics for the year 1903 in conjunction with those for the year 1902.

The period 1903–1906, for the most part, does not afford new or vivid points of contrast with the period of like duration immediately preceding the first conference held under the auspices of the Census Bureau. There has been a continuance of discussion, of widening

interest, and of encouraging and convincing experiment along lines of endeavor established in the earlier years of the movement. In the period under review a number of cities and towns have caught the new spirit and taken measures to improve their fiscal reports or systems of accounting or both. New systems of accounting and improved forms of financial reports have been adopted by the cities of Minneapolis, Minn., and Pawtucket, R. I. The auditor of St. Louis and the comptroller of Duluth have introduced new features into their annual reports; and the last two reports issued by the comptroller of the city of New York are marked by radical and extensive improvements in respect to plan and make-up. At the St. Louis exposition a congress of professional accountants was held, in which representatives of the most influential associations of expert accountants in this country and Europe took part. Foremost among their discussions was that relating to the subject of municipal accounting. Within the past two years the uniform system of accounts and reports, under the supervision of the state auditor, established for all the cities in Ohio by the act of 1902, has been put into operation and thoroughly tested, with gratifying results. The influence of the Census Bureau has been stimulating and salutary, in awakening new interest in its work, in directing old interest into new channels, in strengthening the hands of those already in the field, and in bringing new recruits into the service.

The wisdom of the Bureau's frank, open-minded, and progressive policy has been justified by the nature of the welcome accorded its initiative and leadership. The decision of the Bureau to publish the Statistics of Cities annually instead of biennially can not fail to promote progress. The publication of Census Bulletin 20 in 1905 was an event of capital importance. It is a pleasure to note the appreciative reception given that document by politicians and the public as well as by municipal officials, from whose records the raw material for the tables contained in it was derived. Bulletin 20 is an impressive and praiseworthy, even an inspiring, document, but it does not betoken our entrance upon the millennium we are seeking, when all municipal accounts shall be standardized and all municipal statistics can be pronounced good because they are comparable. The Bureau of the Census may well be proud of its handiwork; but it knows too well the nature and difficulty of the problem with which it has to deal to claim utter perfection for the bulletin tables. The Bureau is desirous to make its tables for 1904 more useful and valuable than its tables for 1902 and 1903. I am glad of that, for even unexceptionable statistics may be put to obnoxious uses by the unwary and inexpert laymen, by whom and for whom, in the last analysis, comparisons between cities and city governments are made. For instance, in the last municipal campaign in Boston, as I had occasion

to know, Bulletin 20 was a magazine in which all parties in the fray found missiles and ammunition suitable for their purpose. One of our religious papers, on the strength of figures cited by a campaign orator, proclaimed the total depravity of Boston's city government. The religious editor declared that Boston was now the "worst governed city in Christendom," because it had been shown that no other city had so large a per capita burden of debt. Had the orator or the editor been thoroughly familiar with Bulletin 20 he would, as a concession to common honesty, have been obliged to apply his epithet to another highly esteemed Massachusetts city whose per capita debt in 1903 was $39.99 greater than Boston's.

It seems to me that the American public was never so willing, not to say anxious, to have full and accurate information respecting the financial administration of our cities placed at its disposal as at the present time. The facts brought to light by the Armstrong Committee in New York, with regard to the juggling of figures and the falsification of reports by those whom we have been taught to revere as the highest type of business probity and efficiency, are likely to weaken for some time to come the force of the argument, recently so popular, namely, that the salvation of municipal government in the United States could best be secured by the simple adoption under business men of business methods in administration. Recent revelations, now that the cash nexus between the world of business and the world of graft has been so clearly shown, are likely to give new force and meaning to the discussion of all questions bearing on the truthfulness, the honesty, and the comparability of financial reports—of the reports of private and public corporations no less than those of municipal corporations. Stranger things have happened than would be involved in the demand, which may possibly arise, that the reports of the great business corporations of the country shall be as well conceived and honestly rendered as are those of our most progressive cities.

The Director of the Census alluded to the extraordinary and growing enthusiasm which has recently declared itself for the municipal ownership of public utilities. The question involved in municipal ownership and operation is a vital and urgent one, and can be neither blinked nor shirked. The decisive factor in it for most unprejudiced men is the underlying question of cost of efficient management. The demand for financial statistics touching the cost of construction and operation of waterworks, gas works, and electric lighting plants under private as contrasted with public ownership and management is already loud and insistent. Fortunately the national association of the managers of the principal public utilities, proposed to be municipalized, have undertaken to standardize the forms of their operating accounts and their financial statements. Nevertheless much remains to be done. It is highly appropriate that the Census Bureau should

ask this conference to consider the question how the accounts of municipal industries and public service corporations should be kept, in order that the cost of construction and operation and the value of service rendered may be presented intelligently.

The situation, in the light of recent events and of present conditions, is one of unusual gravity and interest. It affords the Bureau of the Census, and all who are privileged to cooperate with it, a great opportunity for constructive work and patriotic service. I congratulate this conference on the circumstances under which it meets.

The CHAIRMAN. One of the leading photographers of this city desires to have a chance of taking a photograph of the conference at the close of this session. If it is desired, we will meet on the north steps of the Treasury building immediately after the close of this morning's session. Is there any objection with reference to this? If not, we will leave the matter until later.

It was expected that Mr. Player, of St. Louis, would open the discussion with a paper on the subject of "Publicity." I heard that Mr. Player was preparing this paper; he so informed one of our agents who stopped in that city a short time ago. It has not as yet appeared, and it has been suggested by a number of those present that we depart from the order of the programme as laid out. This morning, then, we will take up a paper on Census Bulletin 20, prepared by myself, and that will open the way for certain discussions which quite a number of the members here desire to present, and if there is no objection to this modification of the programme, we will have the paper. I will ask Mr. Upham, of Cambridge, Mass., to take the chair.

(Mr. Upham took the chair.)

Mr. POWERS. In making the arrangements for the second conference on uniform classification of municipal accounts, at the recommendation of the committee of distinguished gentlemen appointed by the first conference as an advisory committee, I was requested to prepare a brief paper summing up the experiences of the Bureau of the Census in the preparation of Bulletin 20, and the conclusions of that Office with reference to the present status of the problems concerning comparable municipal statistics.

I can not enter upon any discussion of this subject without expressing the obligations of the Bureau of the Census and of myself, personally, to the financial officials of every city of the country containing 25,000 inhabitants. In the collection of the information for Census Bulletin 20 those gentlemen, so many of whom I am glad to welcome here to-day and make their personal acquaintance, have rendered very pleasant the difficult and perplexing labors of the Census agents and those in charge of its work here in Washington. By uniform courtesy to the agents of the Office, by doing all that has been in their power to cooperate and to assist them in their studies, they have ren-

dered it possible for the Bureau of the Census to make a good beginning in a subject which is attracting the attention of students of municipal conditions and municipal problems throughout the world. Those gentlemen, charged with the high and honorable duty of safeguarding the financial interests of our American municipalities, know something of the great difficulties of making just comparisons between the financial management of their cities. They know something of the differences in methods of municipal organization and municipal bookkeeping, and the methods of conducting municipal business. Having this knowledge, they have been the kindest of critics and most cordial in their cooperation with the Bureau of the Census in its studies and statistical investigations. Whatever credit for good comparable statistics may be given to Bulletin 20 and its successors, a great share belongs to these city officials. Its defects, which we hope to correct, can not be removed without the continued cooperation of the same painstaking officials. It is the recognition of this fact that gives rise to this second conference, and the presence of so many from all parts of our common country evidences the continued interest of all in this subject.

Census Bulletin 20, containing statistics of cities of over 25,000 inhabitants, has now been before the public nearly a year. That bulletin presented information for the fiscal years 1902 and 1903. A somewhat similar publication, but including only financial statistics, will soon be completed for the fiscal year 1904. The Tenth and Eleventh censuses collected the data therefor and published certain statistics of all cities. In 1898 Congress authorized the Commissioner of Labor annually to collect similar statistics for cities containing over 30,000 inhabitants, and later authorized the Bureau of the Census to collect statistics of wealth, debt, and taxation, and social statistics of all cities. To avoid duplication, the collection of social statistics of cities of 30,000 inhabitants and over was transferred in 1903 from the Bureau of Labor to the Bureau of the Census. In the preparation of these statistics the duty of collecting and arranging the financial data was given to the division in charge of the statistics relating to wealth, debt, and taxation, of which the speaker is the chief statistician. The other statistics were given in charge of Hon. William C. Hunt, chief statistician for the division of population.

The scope of the report authorized to be included in the designation of social statistics of cities is spoken of and described in Bulletin 20. Permit me to give the following extract therefrom:

> The classes of data to be included in the report on statistics of cities are not explicitly defined either in the law instituting the inquiry conducted by the Commissioner of Labor or in that providing for the statistical investigations of the Census. In the one the data are referred to as "official statistics;" in the other as "social statistics."

Congress seems to have expected that the "official statistics" of cities which the Commissioner of Labor was authorized to compile and publish would comprise the data commonly published in the official city reports and would be compiled directly from those reports. But for reasons already stated (see page 1) it was found impracticable to obtain satisfactory results by that method, and accordingly a schedule of inquiries was prepared and agents were sent to the various cities to collect information from city officials. Naturally and appropriately it was such information as could be derived from official records. The scope of the inquiry conducted by the Commissioner of Labor is best indicated by the list of tables published in his last report.

TABLE I.—Incorporation, population, and area.
II.—Dates of ending of years covered by the investigation.
III.—Police, retail liquor saloons, and arrests, by causes.
IV.—Firemen, fire equipment, and property loss from fires.
V.—Marriages, divorces, and births.
VI.—Deaths, by causes.
VII.—Percentage of deaths from each specified cause.
VIII.—Death rate per 1,000 population, by causes.
IX.—Death rate per 1,000 population.
X.—Area of public parks and miles of streets, sewers, and street railways.
XI.—Care of streets, food and sanitary inspection, and disposal of garbage and other refuse.
XII.—Number and kind of street lights.
XIII.—Public schools.
XIV.—Public libraries.
XV.—Charities: Alms houses, orphan asylums, and hospitals.
XVI.—Cost of water, gas, and electric light plants, owned and operated by cities.
XVII.—Building permits.
XVIII.—Debt and legal borrowing limit.
XIX.—Basis of assessment, assessed valuation of property, and taxation.
XX.—Receipts from all sources.
XXI.—Expenditures for construction and other capital outlay.
XXII.—Expenditures for maintenance and operation.
XXIII.—Summary of receipts and expenditures.
XXIV.—Assets.
XXV.—Per capita debt, assessed valuation of property, and expenditures for maintenance.

As regards the scope of the investigation authorized by the act providing for the Twelfth Census and by the permanent census act, it is to be presumed that Congress, in specifying the special inquiries to be conducted by the Census, intended that these inquiries should include substantially the same topics as they included at previous censuses.

Understanding the law relating to this branch of the subject as thus stated in the bulletin, the two divisions entered upon the labor of collecting, classifying, and presenting the data, with the aim of making the resulting publication as useful to the public as possible. At a very early date it was perceived that to be useful the facts collected must be arranged in a comparable form. To accomplish this end no great problems arose, excepting in the field of financial statistics, upon which must rest as a basis a great proportion of all the other statistics.

Here the questions met with were numerous and of considerable magnitude. The cities of the several states collected their revenues

under a great variety of laws, and those laws had no uniformity of terminology. Some words were employed by the statutes of the several states relating to municipal revenues in a great number of ways. The most marked instance of this is met with in the case of the so-called franchises and franchise taxes. Under such circumstances a comparable presentation of the statistics of municipal revenues called for a detailed study of the statutes of all the states and the ordinances of the larger cities. The Office had to ascertain the significance which the city officials give to every term made use of by them in their treatment of municipal revenues. This has been no easy task. It has involved a great amount of study by experts. The most important part of this study has been under the immediate direction of Prof. Carl C. Plehn, of the University of California. The detailed results of this branch of study have not as yet been given to the public, but will be a constituent and important part of the publication of the Bureau relating to "wealth, debt, and taxation." Its results have, however, been reflected in the analysis of municipal revenues found in Bulletin 20. That presentation will be somewhat improved in the corresponding bulletin for 1904. The principal aim kept in view in making this presentation of municipal revenues is to lay a basis for a scientific and intelligent study and comparison of the sources of municipal income, and of the laws governing the same throughout the country; it is to show the amount derived by each city from each and every source of revenue. It is designed to give even greater detail for this branch of the subject in future publications.

We aim to give, under general property tax, exhibits of the amounts collected as the result of general and special levies and to show ultimately for every large city the amount from every form of taxation, license, privilege, and other sources of revenue. To fully realize this aim has involved not only a careful and scientific study of all the laws and ordinances relating to municipal revenue, to which Professor Plehn has given his attention for a considerable time, but the Office has had to train all its clerks to master the practical workings of these laws everywhere, and to separate and assign to its appropriate subdivision the receipts from each class of revenue. This is the hardest part of the undertaking. When once this training is completed and the Office force has mastered thoroughly the intricate details of the operation of all the revenue laws throughout the country, this part of the statistics of cities can be placed on a truly comparable basis and given a form that will be of inestimable value to all interested in the revenue systems of our cities and the improvement of methods of public taxation.

In making this study and arranging this branch of its statistics the Bureau of the Census is moved by the conviction that no class

of public questions is as important as that gathering around public taxation, and no class of statistics can be of greater importance than that which forms the basis for an intelligent study of the various methods and schemes of taxation that are now in force throughout the country.

In arranging its classification of municipal revenues and adopting its nomenclature given in Bulletin 20, the Bureau has sought to lay the basis for future studies of all the great questions of municipal revenue and public taxation. To illustrate some of these problems that were kept in mind in arranging our classification of public revenue, I will refer to public service corporations, such as those operating street cars, electric lighting plants, gas works, telephones, etc. The plans of the Office involve giving to the public a mass of information concerning these corporations and their relation to the public not previously available. Let me state these plans for street railways and their relations to the statistics embodied in Bulletin 20.

For 1905 we expect to give to the public estimates of the commercial value of the street railways of all our cities, based upon the market value of the securities issued by the corporations operating the same. These estimates will be made along the lines illustrated by Census Bulletin 21, for steam railways of the United States. We hope to give, along with this information, a statement in detail for each city of the taxes paid by these railroads as general property taxes, license taxes, gross revenue taxes, etc. We shall also show what amounts paid by these corporations can properly be classified as payments for "public privileges" as apart from taxes. These payments for "public privileges" are in character the same as "rental for private property." The study of Bulletin 20 and its successors will show a few cities receiving a small income from privileges, and others, nothing. There are no data at hand showing whether in any city these corporations are paying their just share of the burdens of taxation. To throw all light attainable upon the subject is the aim of the Census Bureau in its plans for these statistics. It was impossible to enter this broad field in detail until we had mastered the knowledge of local revenue systems and trained our clerks to an intelligent discrimination with reference thereto. This study will also, in connection with other public service corporations, lay the foundation for an intelligent investigation of the problems and questions concerning municipal ownership and operation of all public utilities. By assisting in laying a correct basis for comparable financial statistics you render it possible for the early preparation of an intelligent study of all questions relating to public utilities. In many of your cities these questions are very live ones to-day. In all, they are to be more so in the future. We ask you to cooperate with us in making our statistics of municipal revenues truly

comparable and on a basis that will open the flood gates of light thereupon.

To furnish statistics of municipal revenues—such as may be valuable to the student—is one aim of the Bureau of the Census. In like manner the Bureau seeks to make its statistics of payments for expenses and outlays, and its exhibit of public debt, as comparable as practicable for the various cities. Comparability in these fields involves different problems from those met with in the domain of revenue. As the basis of its work in this field the Bureau of the Census has given much study to the subject of classification and nomenclature, so that its employees working upon the books of different cities might work in harmony along the same and comparable lines. The classification and nomenclature adopted seems to be a good beginning, and yet may I say the Office looks upon it only as a beginning? All that has been accomplished merely points out the way for future improvement. The tables of Bulletin 20 disclose a wide difference in state laws under which cities are operated, as well as variations in the relations which the individual city bears to other civil divisions. These cities show many other points at which the figures of the Census are not yet truly comparable. Such figures must therefore be used with great care at present, or false deductions may be drawn from them, as has been the case in many instances that have come to the attention of the Office. If the Bureau felt at any time that all the problems relating to the comparability of municipal statistics had been solved, it would not have called this conference. But the extreme importance of the subject, and the progress already attained by the cooperation and kindness of the city officials throughout the country, has led to the belief that as a result of this conference there will come suggestions that will open the way for making these statistics of much greater service to the student of municipal government than has been attained in the past.

One of the most perplexing problems relating to the comparability of these statistics rose out of the different organizations of cities and their different relations to such governmental functions as those connected with schools, courts, charities, etc. In some cities the schools are managed by the city government proper; in others, by what is in reality an independent municipality or school district. We have, so far as practicable, combined the statistics of these school districts with those of the city government proper. Some of the best and most thoughtful men in the country take exception to this treatment. I have asked them to voice their objections here to-day. A greater number criticise our statistics from the opposite side and would have us bring into the same compilation, at least for the larger cities, the county accounts. This is especially suggested for such cities as Chicago. This latter suggestion comes from one of

the foremost students of municipal affairs in our country. Further, the question is raised as to the item of interest on debt in our statistics of schools, or police and fire departments. The question raised and suggestions offered disclose a wide field for honest discussion and investigation. The suggestions would be, the source of discouragement but for the assertion which comes with nearly all, that we have succeeded in laying a correct general foundation, and all that is now needed is attention to details to accomplish the results for which all students were looking and looking in vain until the appearance of Bulletin 20.

The Bureau of the Census aims only to make these statistics the most perfect medium of advancing the common interest of the millions dwelling within our large municipalities and of furnishing information in the most available form for solving the many perplexing problems relating to municipal government and municipal well-being. How to build upon the foundation laid to accomplish these results is the problem upon which we are all working. The large and representative gathering here assembled from our greatest cities shows the popular interest which those cities and their officials take in this work, and I repeat that whatever success has attended the Census labors in this field is due, in a very large measure, to the hearty cooperation of the city officials throughout the country. Improvement in this work will depend largely upon the frank criticisms and suggestions and cooperation of all in the future.

The city officials here present are more or less familiar with the processes of collecting these data. Our agents visit the cities concerned and from the official books of record compile our information. They arrange this information on schedules prepared for the purpose and accompany the same with notes and explanations. It is the design of the Office to have the accompanying notes as full and lucid as possible, so as to set forth the exact character of any exceptional transaction or account shown on the books of the several cities. The object of these notes is to enable the Office to follow in detail the field agent's work, to check it with printed city reports, to know exactly why any entry included on the schedule is classified differently from what is shown on the city books, and so to enable the Office to make such changes on the schedule as the more perfect study suggests. The field agents are told that full notes of this kind are more to be desired than a perfect classification. They are so considered, since correct detailed information can assure correct classification as well as the correction of all errors, while the Office can not be sure of the work of even the best agent without a detailed check upon his work, which is afforded by such notes. Each year the checks upon the field agents of this sort are increased, and in turn each year the clerks are furnishing of their own volition more information that is

available for making a complete and comparable report. With schedules so prepared and accompanied with notes the office work begins. These schedules and notes are critically reviewed and compared with the printed city report that is at hand. The work of one year is compared in detail with that for the same city for preceding years, and the reasons for all variations and improvements noted. Each year, through the devoted and earnest labors both of the field force and the office workers, more and greater devices are introduced for detecting and correcting any errors that may be made by the field agent, and also for enabling the field agents and the Office properly to present a true exhibit of the city's financial condition in a form comparable with that of other cities. To city officials who are interested in this branch of the work we should be pleased to show in detail at the close of the conference all the work thus done on the schedules for their individual cities.

You are all familiar with the reception accorded to Bulletin 20. The public has, it seems, given full credit to the sincere effort of the Bureau of the Census to give comparable and valuable statistics relating to our municipalities. It has recognized the many difficulties in the way of preparing truly comparable statistics, and thus has been lenient to the imperfections of the report. A great many city officials, professors of political economy and finance in our universities, and other students of municipal affairs have expressed their appreciation of the report and of the progress made by the Bureau of the Census in this very difficult field of comparable statistics. The report has been used as the basis of political addresses in municipal contests and a basis of modifying the many items of the city budget in a large number of cities all over the country. Some of the people thus employed have not observed the statement of the text pointing out the limitations under which its figures are comparable, and so at times wrong deductions have been made from these figures. But this sort of error will always be made in the use of any statistical publication, and such use will continue until the users of statistics are made inerrant. This is more necessary even than infallibility of statistics. The lessons borne home to the Office in the preparation of Bulletin 20, and by its popular reception and use, I may briefly summarize as follows:

No branch of national statistics is of such supreme importance as those surrounding the financial reports of cities, of which the foundation is now securely laid in Bulletin 20. No branch of statistics presents so many difficulties in securing perfect comparability, and hence none requires a wider cooperation, more lively interest, or more frank and complete discussion on the part of all interested therein. The Census Bureau to improve its work must know what all of you are saying about its work when you are comparing it with your own

reports and with those of other cities. It should know the difficulties you meet with in trying to make honest and candid deductions from it with reference to the comparative cost of any branch of service in your city and that of others. If the Census Bureau is kept constantly posted upon these points, the Bureau can readily correct in future publications the real errors found in this. Of course some suggestions will surely be made of which the Bureau can not make use, since some are directly the opposite of others.

I have stated that the Census Bureau must be wide awake to the suggestions of city officials and all others interested in using the same. But the Bureau can go only a limited distance in this direction without the active cooperation of the cities themselves by standardizing their own accounts. It is impossible for the brightest of Census agents—and the Office has some very capable young men, to whose ability, fidelity, and conscientiousness I wish to bear testimony—it is impossible, I say, for even those young men with all their ability to master in a few weeks all the intricate details of the accounts of a large city unless they are working along the same lines in a sympathetic way with the city officials. They must be intelligently laboring upon the same problems, else the Census Bureau will, at times, reach results not exactly correct; hence the absolute necessity, before fully comparable statistics are secured, that cities and the Census Bureau should, within reasonable limits, standardize the work by a common basis of classified accounts. Great progress has been made along this line within the last three years, but there remains much to be hoped for in the future.

This does not necessarily mean the adoption of the same system of bookkeeping for all cities, but the insertion into all systems of certain common terms and the uniform classification and grouping of accounts. The Census does not recommend any special system of accounts. That is something for the individual cities to settle for themselves. It is a subject well worthy the consideration of such a capable and intelligent body of officials as is here assembled, but it is one upon which the cities should be guided by their mutual experience in the work of safeguarding the public interest. But accounts under any system can be standardized. They should be so standardized, and then you will not have to wait for Census reports to make comparisons with other cities. You can make comparisons, in many cases, better direct from city reports than from the census. This should be the aim of all concerned. If it is once secured, the statistics will be more valuable than now and the work of the Census will become a mere formal and incidental one. May I say that when that end is attained, the real work of the Census will have been accomplished?

In transferring the statistics of cities to the Bureau of the Census the Commissioner of Labor recommended that the statistics be collected and compiled only once in two years. The Bureau of the Census gave in Bulletin 20 its enlarged and improved financial statistics along with general statistics on the same lines as those included in the bulletin of the Department of Labor. For 1904 the Census bulletin omits these general statistics, moved thereto by the consideration of the same facts which led to the recommendation of Colonel Wright, the Commissioner of Labor, as stated above. The Bureau of the Census does not wish to publish any statistics for which there is no real demand and which are not sufficiently useful to the general public to warrant the cost of the compilation and publication. It is hoped that there may be at this conference a complete statement of the reasons that present themselves to those here present with reference to the publication of the general statistics of Bulletin 20. These statistics can readily be enlarged and improved. The chief statistician, Mr. Hunt, who had the same in charge for Bulletin 20, has made very intelligent and painstaking study and plans for such improvement, and the Bureau of the Census only desires to know how far there is a popular demand and use for these other statistics. If there is a use that justifies the annual publication in an enlarged and improved form, the Office wishes to compile them annually in the future. If all needs and desires can be satisfied by a publication once in every two or five years, then the Office wishes to issue the same with that frequency only.

I understand that there are some here who wish to discuss certain phases of the Census statistics relating to revenue and taxation. If Comptroller Metz is in the room and has his paper upon the subject of taxes and revenue, I should be pleased to have him present it.

Mr. METZ. I did not intend to inflict this paper upon you so early in the proceedings, and I might add that I am a new man with a new job. I have not all the details as yet, and I doubt if I shall have them during my four years' term. I had to ask Mr. MacInnes, of our accounting bureau, to dig out the facts for me. The paper relates especially to the personal tax proposition.

(Mr. Metz's paper follows.)

THE CITY OF NEW YORK CONTRASTED WITH OTHER AMERICAN CITIES IN THE LIGHT OF STATISTICS PREPARED BY THE UNITED STATES CENSUS; TOGETHER WITH A REVIEW OF CERTAIN PHASES OF TAXATION, ASSESSMENTS, ETC.

The magnitude of the business carried on by the municipal corporation of the city of New York and the stupendous operations conducted yearly by said city in the education of its people, the protection of life and property, and the care of the public health, together with the manifold duties devolving on the administration, are to some extent indicated in the comprehensive report prepared and issued by the Bureau of the Census for the

years 1902 and 1903, the financial statistics relating to which were tabulated under the supervision of Doctor Powers.

In the report referred to I find that the tabulations deal with 175 cities having a population of from 25,000 upward. The Census Bureau in its work of tabulation has classified these 175 cities into four separate groups, the first of which consists of New York and the 13 next largest cities in the United States, viz, Chicago, Philadelphia, St. Louis, Boston, Baltimore, Cleveland, Buffalo, San Francisco, Pittsburg, Cincinnati, Milwaukee, Detroit, and New Orleans. Of this group it is shown that the population of New York city is upward of 32 per cent of the whole, while her expenditures for the year 1903 were fully 53 per cent of the group of 14 cities; or in other words, the expenditures by the city of New York during the year 1903 were greater than the combined expenditures of the next 13 largest cities of the country. The Census Bureau's tables also show that of the 175 cities, the expenditures by the city of New York were upward of 34 per cent of the grand aggregate; that is to say, fully one-third of the entire expenditures by 175 cities throughout the United States for current management, permanent improvements, etc., during the year 1903 was made by the city of New York. The grand aggregate of transactions regarded as payments by the city of New York during the year 1903 was upward of $326,000,000.

These figures are cited in the first instance as giving an intimation of the enormous task which the accounting system in the comptroller's office has to meet and provide for; and in the second instance as an illustration of how readily significant comparisons can be made of the expenditures (and the remark applies equally to receipts) by the large number of cities the activities of which have been reviewed in the very comprehensive work and report of the Census Bureau.

In that part of the report dealing with the financial statistics the tables begin with a general statement showing the aggregate expenditures by the several cities, developing in following tables the general classification of what the aggregate expenditures consists, and an examination of these developments shows that of the first group of 14 cities the corporate expenditures as distinguished from those classified as of a temporary character, to wit, the reduction of debt, refunds of moneys, etc., consisted of upward of $340,000,000, of which New York's share was 49 per cent.

In the table dealing with salaries and wages we find that New York has apparently not been so generous as some of the other cities; because while her ratio of the total expenses of these 14 cities was 53 per cent of the aggregate and 49 per cent of the net, yet of the total amount paid by said cities for salaries and wages New York's share was only 43 per cent.

The amount expended during 1903 for public education in New York city was close to $23,000,000. In this connection it may be interesting to note that during 1905 the amount expended by New York city for education was more than twice greater than the amount expended for police purposes—$28,000,000 against $12,400,000; while in 1895, just one decade earlier, the expenditures by the then city of New York for police purposes and for education were practically parallel. This latter fact, to my mind, when contrasted with the former, speaks volumes as to the continuous strides which the great municipality is ever making, despite all hue and cry to the contrary, for better government and improved social conditions within its borders.

In concluding this brief reference to the expenditures by the city of New York, the recording of and accounting for which necessarily devolve on the comptroller's office, it might here be fittingly stated that during 1905 there were 119,491 warrants registered, authorizing payments for all kinds of services performed to and for the city, and there were 572,863 checks issued from the paymaster's office during the year. Both of these offices are bureaus of the department of finance.

On December 31, 1905, the total funded debt of the city of New York was $600,257,000, of which $170,530,000 was held as investments by the sinking funds of the city and $429,727,000 was held by outside investors, i. e., the public. Of said stated amount,

there was $6,280,000 of special revenue bonds or short-timed loans, which, pursuant to law, are payable from the succeeding years' tax levy. In addition to the large aggregate of funded debt stated, there was also $42,097,000 of revenue bonds or temporary debt issued in anticipation of the collection of taxes, viz, $2,640,000 in anticipation of the collection of 1902 taxes; $8,525,000 of 1903 taxes; $9,550,000 of 1904 taxes still outstanding; and $21,382,000 to be paid from the collections of 1905 taxes. Among the assets which the city of New York has to liquidate these temporary loans are some $35,000,000 of arrears of personal taxes, of which upward of $23,500,000 has become outlawed or otherwise disposed of, and of the $11,500,000 remaining only a very small percentage is in all probability collectible. There is also among the assets applicable on collection to the liquidation of these temporary loans upward of $14,000,000 of special franchise taxes levied under the statute of 1899. These consist largely of taxes against corporations which resisted payment of the same under the plea that the law was unconstitutional. But the constitutionality of the law was upheld by the highest court in the state and finally by the Supreme Court of the United States, and in all probability the tax, with some minor modifications, will be collected ultimately, together with a considerable amount of accrued interest thereon.

But the large amount of personal taxes outstanding, the greater part of which in all likelihood is uncollectible, evidences a faulty system on which these taxes were originally predicated, and forces upon us the recognition of a condition which we must not only cope with, but also find a means to prevent a similar future recurrence. We have been borrowing millions of dollars on the city's short-term notes (i. e., revenue bonds) based in part on an asset so unreliable and shifty that the greater our efforts to realize on it the faster it shrinks into nothingness and the less able are we to liquidate the loans which were raised on these taxes. This disparity between real asset and actual liability will continue to grow unless a remedy can be found that will solve the problem somewhat to the satisfaction of the people and without material injury to the large body of taxpayers, i. e., those who pay taxes on real estate.

Several considerations will materially affect the remedies to be adopted: (*a*) When personal estates are assessed beyond a certain amount or proportion of the actual value, it results in the removal of the legal residence of the assessed and the tax in consequence is all lost; (*b*) if, on the other hand, the assessment on personal estates is too low, the effect necessarily is that a greater amount of tax is imposed on the real estate subject to taxation—the something that can not run away or be shifted must pay, and thus a too low assessed value on personal property would result in an inequitable amount of the whole tax being imposed on real estate.

It would therefore seem good business policy either to adopt a middle course, by placing the assessment on personal property at only a proportion of the whole and endeavor to perfect the system of collection so as to assure an absolute or nearly absolute realization, or, if the present plan of assessing personal property at the full value it is assumed to possess be adhered to, the aggregate amount of all assessments on personal property, as confirmed, should be taken at say from 60 per cent to 66⅔ per cent of such, and the amount resulting from such percentage added to the confirmed assessed value of the real estate. On the combined assessment thus obtained the tax rate would be determined, extending the tax, however, against every separate assessment. Under this method it would follow that to whatever extent the collections of personal tax should exceed the proportion of the total assessment of personal estate which was taken to predicate the tax rate, the general fund of the city would be benefited and following years' tax levies would be correspondingly reduced. If the actual collections of personal tax did not exceed the proportion (six-tenths or two-thirds) of the whole assessment on personal property which was considered in determining the tax rate, we would be no worse off than we are now in regard to collections—which barely equal 60 per cent of the whole—but infinitely better off as to debt, for the reason that our borrowing by issue of revenue bonds would be predicated,

as now, on our total tax levy as determined by the tax rate on the confirmed assessed value, used for the purpose of determining the tax rate, and we would be able to liquidate these loans on a full collection of taxes on real estate and a 60 per cent collection of the taxes on personal property; while, as has already been stated, all collections in excess of 60 per cent of the total amount of personal taxes extended on the tax rolls would pass into the general fund of the city as surplus tax collections and be used to reduce following years' levies in the same manner as, for instance, the interest on taxes is now used.

I submit these views in regard to the subject of personal taxes as it appeals to me, in the hope that it will prove of sufficient interest to call forth discussion and comment and perhaps result in something approaching a consensus of opinion as to the remedy, or at any rate best methods, whereby the condition, such as I have referred to as confronting the city of New York, could not in future readily occur.

The CHAIRMAN. The most profitable part of the conference two years ago was a discussion of just such points as those made by Comptroller Metz.

What ways are there for meeting these difficulties that confront city officials? You will find, gentlemen, that not all these difficulties are with the Census Office itself. We have our perplexities and we want you to help us by showing us how we can meet them, but the conference will lose half its value if it does not—as was intended two years ago—solve these questions as they come up. Shall we have any further discussion? It is now after 12 o'clock. Shall we adjourn for the picture?

Mr. BETZ. Mr. Chairman, I move we adjourn until 2 o'clock.

The CHAIRMAN. Before we adjourn I will ask the secretary to read the list of the delegates here present, with the request that any such person whose name is not on this list will notify the secretary at the close of this session.

Doctor HARTWELL (after reading list as given above). The list numbers 38 at present, representing something like fifteen different states. If any names have been omitted I shall be glad to have it rendered complete.

The CHAIRMAN. If there are no questions, the motion to adjourn will now be in order. All those in favor signify by saying "Aye." Those interested in having the picture will adjourn to the north steps of the Treasury building. The meeting is adjourned.

SECOND SESSION, TUESDAY AFTERNOON, FEBRUARY 13.

The chairman called the meeting to order at 2.30 p. m.

The CHAIRMAN. There is a desire to have a discussion of the papers and subjects that were up this morning. Mr. DeBerard, of the Merchants' Association of New York, wishes to speak on taxation, to which the paper of Comptroller Metz referred.

Mr. DEBERARD. Mr. Chairman and gentlemen, I have very little to say on the subject, but Comptroller Metz's discussion on personal taxation seems to warrant a few remarks. He is in a somewhat

difficult position in having to administer the finances of the city on the basis of what he calls "dead horses." He has a great number of millions of dollars that are supposed to represent an asset. The city, year by year, is borrowing money in anticipation of the collection of taxes of the succeeding year, and counting personal taxes that never can be collected as assets. The question that Mr. Metz suggested is, how to get rid of those unavailable assets, and how to get a system of accounting that will bring the city's finances down to a true basis.

I have no suggestions to offer on that line, but merely wish to make a very brief statement of facts. The system of taxation of the state of New York is in a chaotic condition, and has been so for a long time. There are two contending elements in the state responsible for the condition. The city of New York has an immense aggregation of property, and the average country legislator desires to cultivate the friendliness of his constituents by relieving them of taxation to as large a degree as possible. The tax laws, therefore, are adjusted to get as much from the city of New York as is practicable and relieve the country districts and counties of as much as possible. The consequence is that an attempt is made to get hold of as much personal property as possible for the purposes of taxation. The laws are somewhat stringent as to personal property, and therefore it becomes a most desirable end, for those who have control of that property, to dodge taxation. The state of New Jersey has derived a very large income from its lenient policy toward corporations and business firms; and the more important cities of New York have decided that very much income might accrue to them if the laws were more liberal, so that the owners of personal property would find it expedient to keep it within the jurisdiction of the state. Another evil, especially responsible for the condition which Mr. Metz's paper alludes to, is the manner in which personal taxes are levied in the state of New York. It is almost purely a matter of guesswork. A very large number of persons in the city of New York who have no personal property whatever anywhere are annually assessed for considerable amounts. Their names are taken from the voting list. They are known to reside on a certain street at a certain number, and notice is sent to them that they are assessed for a certain amount. That amount is put on the list and they are taxed accordingly; but the tax can never be collected, for the simple reason that they have no property of any kind. The subject is one that has been earnestly considered for many years past. A bill is now before the legislature for permission to review the whole subject.

The CHAIRMAN. Does anyone desire to speak upon the general subject suggested by Mr. Metz, giving the experience of his city in dealing with these perplexing problems of public revenues?

Mr. CHASE. I would like to ask Mr. Tracy to give his experience in Ohio.

Mr. TRACY. The legislature of Ohio is now battling with the question of taxation. The matter presents several different phases. The principal one is the repeal of the tax inquisitor law. In our state we have had for many years a provision that the county commissioners, the auditor, and the county treasurer may make contracts to investigate the stock roll or investment records of the various corporations that they can get possession of, also the mortgage record of different counties. From these records (those of Ohio as well as those of other states) they prosecute their investigations and endeavor to secure for the taxation list the names of all holders of credit. This law has proved very obnoxious to the people, and there is not much doubt but that it will be repealed by this legislature. There is no doubt that this is driving capital from the state. On that account principally, as well as because only a very small per cent of such property is actually made to pay its share of taxes, the people seem to be in favor of repealing the law. Another proposition before the legislature is to exempt moneys and credits entirely from taxation—in other words, not to attempt to lay a tax on intangible property. It is also being considered that credit should be made a matter of record in the county auditor's office, so as to place it within the hands of the taxing officers before it will be collectible in court; but what the legislature will do, beyond repealing the tax inquisitor law, is problematical.

The proposition to exempt moneys and credits entirely from taxation has taken quite a hold on the financial organizations of the state. It is a fact that not more than 10 per cent of the credit of our state becomes subject to the payment of taxes, and scarcely 5 per cent of the money gets on the tax list. Although we have stringent laws and a penalty for tax dodging, their enforcement has been unsuccessful, and I believe that the Ohio laws would produce better results if moneys were entirely exempt from taxation.

There are thousands and thousands of dollars of personal taxes remaining on our tax list that are uncollected. In our department we are confronted with the question, how to make the proper charge for this asset, which is a "dead horse." There is no legal way at present of removing it from the tax list. If the accounting auditor does his duty, he continues to carry this amount year after year, for twenty years or forty years. There is no legal way of omitting it, and in consequence you get a large list, which in the course of time becomes burdensome for the treasurer to handle. It is not collectible, and the proposition is before the legislature to have the county auditor and treasurer pass upon the personal tax annually, and to

give them the authority to strike from the list items that have remained on the list more than five years.

Mr. MacInnes. I think Comptroller Metz's purpose in bringing this matter before you should be inferred from the concluding paragraph in his paper, in which he said he submitted his views in regard to personal taxes in the hope of calling forth discussion and comments that may result in something approaching a consensus of opinion. Comptroller Metz, in speaking of this matter prior to his coming to the conference, emphasized his belief that in a gathering such as this, men coming from all parts of the country, from a great many different states and cities, where varying conditions were met, would form the very best field and would give him the very best audience in which a paper of this kind could be fully discussed.

The city of New York is confronted with the condition which a great many cities have to face, but in this case it is emphasized because of the vastness of the city. Its yearly tax levy has grown to ninety millions of dollars. Its annual budget is one hundred and ten millions of dollars, and from twenty to twenty-five millions of the necessary appropriation is met and provided from general revenue. The city has to raise from eighty-five to ninety millions by taxes. The experience of the city since consolidation (eight years ago) has been that of the personal tax levy of 102 per cent (2 per cent to cover deficiency), barely 60 per cent has been collected. The system of raising necessary revenue consists in making a budget to commence in the month of January and in making a tax levy to meet that budget in the following fall; so for eight or nine months of the year we have to meet our necessities by borrowing, and by borrowing on short-term notes; that is to say, we presume that the term will be short. Still, some of those notes, issued in the year 1902, are still outstanding, although the law says they are payable from that year's tax levy, that is, from current collection. So we have gone on borrowing money on the strength of this tax levy until the present comptroller finds himself confronted with an outstanding obligation consisting of such short-term revenue bonds amounting to forty-two millions of dollars. To meet this we have quite a little of the 1905 levy, which is all right, but we have thirty-five million dollars of that personal-tax levy with which to meet these short-term notes. Twenty-three and one-half millions of that levy might as well be wiped off now, if we had the authority. This is what Mr. DeBerard has referred to as the "dead horse," and there are eleven and one-half millions hanging in the traces. I do not think, if they were put up at auction to-day, that the thirty-five millions would bring enough to carry us back to New York if we were without the means to get there. How to meet this obligation is not the question that the

comptroller brought before this conference; the question is, rather, how to prevent the recurrence of such a condition. We shall have to meet the thirty-five millions by raising that amount of money. How shall we prevent such a necessity? That is the question. If I picture to you in figures such a condition as has occurred, perhaps it will make clearer and plainer the nature of the plan proposed to prevent its recurrence. For the year 1905 the city of New York made a tax rate, predicated on five billions of dollars of assessed valuation on real estate and a little over six hundred millions assessed on personal property. Now, those six hundred millions are all that remain from over two billions. When the dragnet was cast to get that property that shifts whenever the assessor comes around, and finds that the citizen's legal residence is not in New York, but in Newport, something like two billions worth of property was assessed, but before the final confirmation of the assessment, for taxable purposes, that amount dwindled to a little over six hundred millions. In order to raise eighty-four million dollars of taxes, the tax levy was predicated on these two elements: Five billions of real estate valuation and six hundred millions assessed on personal property. That gives us a tax rate of a little over $1.50. Now, the comptroller suggested in his proposition that one way out of the difficulty would be to predicate the rate on the five billions of real estate and on 60 per cent of the six hundred millions of personal property. That would give us $360,000,000 of personal property on which to base the rate, but instead of giving us for the 100 per cent of the two elements at the rate of $1.50 to raise $84,000,000 of taxes, 60 per cent of the valuation of personal property and 100 per cent valuation on real estate would yield a rate of $1.56, which would mean an increase, in points, of five or six a year.

However, the tax can not be stricken from the books at the present time, but if we collect only 60 per cent of the total tax levied, we shall be in a position to liquidate all our liabilities; that is, in short-term notes. Whatever we collect on personal property over and above 60 per cent of its valuation would be simply passed into the principal of next year's taxes, in the same way that they use the interest on the taxes at the present time. Mr. Tracy has said that the purpose of legislation in the state of Ohio is to do away with all taxation on personal property, or taxes on cash and credit. That would mean, if it were carried into effect, as regards the city of New York, an increase of from fifteen to eighteen points in our tax levy, which no administration would choose to face. I do not believe the time has come when we should advocate the exemption of personal property.

Mr. Tracy. I would like to ask a question right there. You take your bank statement as an account of cash, that is, all money in

the banks of New York, not including the money in circulation. There is no exemption whatever for money debt, or anything else. I would like to know what per cent you get on your tax levy?

Mr. MacInnes. It is very small; so small as to be almost infinitesimal. Nevertheless, any other method would mean at least fifteen points increase in the tax rate—practically that on the assumed 100 per cent of valuation of real estate. The city of New York can not afford to curtail its assessment of 100 per cent. It is requisite that each city and town should have forty or fifty million dollars to continue its commercial development. If real property were taxed without any other elements, such an increase in tax rate would result as would stop the development which we should have. It has been unsatisfactory—so unsatisfactory that the present comptroller is confronted with the necessity of doing something to pay off the thirty-five million dollars—twenty-three and one-half millions "dead horse," and eleven and one-half millions "hanging in the traces," or practically dead. He must find some means of raising that money; and I wish to say that he is the first comptroller who has had the courage to call attention to the situation. While a solution remains to be found for the elimination of personal taxes, yet some solution should be found. That is the main reason, I believe, why he brought the matter before you. From your experiences what should you say would be a likely solution of this personal tax problem? I take it the comptroller's suggestion was merely a suggestion. Is there any real objection to it? Mr. Chairman, in the absence of the comptroller, I merely wish to place before the gathering some figures that illustrate the method brought to your notice.

The personal property originally assessed gave us upward of two billion dollars, but it was found that the legal residence of so many of those who were assessed was not in New York, but in Newport, Palm Beach, and other places that finally those two billion dollars dwindled to six hundred million dollars.

Mr. Chase. Is that personal tax collected on credits, moneys, and other securities? I simply ask for information.

Mr. MacInnes. It is based largely on securities.

Doctor Cleveland. That is the question I would like to ask. Does this six hundred million dollars include not only moneys and credits, but merchandise and other personal effects?

Mr. MacInnes. The personal property of the city of New York is based largely on securities, that is, securities which people do not come in and swear off as exempt from taxation, under the laws of the state of NewYork.

Mr. Rives. I have been in the comptroller's office of Shreveport, La., for six years. There is only one man in our city who has money on our roll. He did not have any property and he put himself on

the roll for five hundred dollars in money. He is the only man in our town assessed for money.

Twenty years ago I borrowed some money from a friend to buy a lot to build a home. There was a law to assess mortgages; the assessor came along and assessed the holder of this mortgage note. He came to me and told me to take this note and mark it paid so that he could say the bill was paid. It is simply a dead letter. Take the assessors' roll, and our personal tax is nothing in the world but merchandise and live stock—horses, cows, etc.—that is, personal property. There is nothing else on our rolls. That five hundred dollars is the only money. Now, bank stock, of course, is assessed. Beyond that, the five hundred dollars is the only money on our rolls.

Mr. HENDERSON. I would like to ask a question. Did Mr. MacInnes state whether he classes all property outside of intangible property as real estate?

Mr. MACINNES. Real estate as considered by the assessors of the the city of New York consists, first, of sites and buildings; next, property of corporations assessed under the special franchise law of 1899—all tangible property that is assessed by the city assessors. These are the elements of the real estate taxes of the city of New York.

Mr. HENDERSON. I admire a man who has the courage to state his convictions. Mr. Metz, having the courage of his convictions, will have no hesitancy in saying to the public that the present system will bring it into more and more difficulty every year.

Mr. METZ. It is exactly what I aim to do.

Mr. SHEPARD. Mr. Chairman, we have our troubles in Buffalo. We have three sources of revenue for taxation. Real estate, which bears approximately 93 per cent of the taxes; franchise taxes, which bear approximately 4 per cent; and personal taxes, which bear 3 per cent or, to be exact, 2.6 per cent. Now, it seems to me, there are two propositions to consider: One is how much are we to collect from taxation on personal property. That is a pretty broad proposition, and of course we can only make suggestions as to how to do it. It is largely a matter of legislation, which we can not control. The other is what to do (and is a matter of bookkeeping) with the personal property tax that is uncollectible. The gentleman from New York has stated, as I recollect the figures, that they have about six hundred million dollars of taxes after they get through with the dragnet, and they collect about 60 per cent of that, so that New York is really getting, if they get that, 8 per cent of their budget from personal property. In Buffalo we get only 2.6 per cent. It is a great source of complaint with us that real estate bears so large a burden.

It is well known that the loss from bad debts of the average wholesale business house varies from 1.5 per cent to 2.5 per cent—say an average of 2 per cent—of the total amount of business done annually. Therefore, if the total loss by bad debts on the part of cities does not exceed 2 per cent of the budget, the loss is not greater than that of the average business.

It is indeed a serious proposition how to collect a bad tax, and one that must be necessarily controlled by legislation. Judging from remarks made here, some states have much better laws than others in this particular, and especially as regards the collection of delinquent personal property assessments. If consistent with the laws of the respective communities, would it not be desirable to include each year in the tax budget, just as they do in New York city, 2 per cent, or, better still, 2.5 or 3 per cent as an allowance for taxes that are never collected; just as business houses in anticipation of expense accounts make an allowance for bad debts?

Mr. MacInnes. The city of New York allows 2 per cent.

Mr. Shepard. I would like to ask Mr. MacInnes who collects the tax.

Mr. MacInnes. An official whose title is that of "tax receiver."

Mr. Shepard. Why does he not collect?

Mr. MacInnes. Because he is a "receiver."

Mr. Shepard. That would be a proper reason, but is it the reason in this case?

Mr. MacInnes. We have the right of showing that the taxes have not been collected and that it is necessary to proceed without waiting for voluntary payments. After the expiration of a certain time we have the right of placing the tax levy in the hands of a receiver of taxes for collection, and unless a good excuse is given for delay in the payment of taxes, summary measures are resorted to very quickly. It will be our experience this year that for the current levy the amount uncollected on the 1st day of July next—that is, June 30, which is the end of our fiscal year—will average about five-eighths of 1 per cent.

Mr. Beck. May I ask the question why they had to collect a "dead" debt, or, rather, why the collecting was not done before?

Mr. MacInnes. The question asked by Mr. Beck in regard to the collection of taxes is very pertinent to the question under discussion, and at this time I think it would be opportune to have the method of procedure for collection of taxes by the city of New York explained by one who is thoroughly familiar with the subject. I refer to Mr. Rathyen, accountant in the comptroller's office of the city of New York. He is here and I now call upon him for the sake of securing a thorough explanation of the method of procedure in the collection of taxes. Mr. Rathyen has prepared a paper on the subject, which he will now present to the conference.

(Mr. Rathyen's paper follows.)

THE ACCOUNTING PROCEDURE OF THE CITY OF NEW YORK IN RELATION TO THE LEVY AND COLLECTION OF TAXES AND ASSESSMENTS.

When the amount of taxes to be raised in each year is finally determined and confirmed by the board of aldermen, the tax rolls showing the assessed valuation on each piece and parcel of land in the city of New York, together with the amount taxed against each piece and parcel, are transmitted, usually in August, to the receiver of taxes for collection. The taxes so levied are due and payable on the first Monday in October of each year.

The total amount levied in each year to meet the expenses of the government is usually between eighty million and ninety million dollars, this being the total amount of the budget appropriation less the sum of the general fund applicable thereto, together with 2 per cent on the resultant tax levy, to meet any deficiency in the collection of taxes, the said deficiency being caused by erroneous valuations, discount allowed for prompt payment within the month of October, and cancellations pursuant to orders of courts. The amount of the tax levy is charged to the receiver of taxes on the books of the chief accountant of the department of finance, and an account known as "tax levy of ———" is credited. The said account "tax levy of ———" is then charged and a general appropriation account for the specific year is credited.

The general appropriation account is then charged, and individual accounts are credited with the amount allotted by the board of estimate and apportionment.

The final result is that the receiver of taxes is charged with the total amount of taxes to be raised and the individual appropriation accounts credited, together with a deficiency account, using the intermediary accounts, viz, tax levy of ——— and general appropriation, as the accounts to show at the first glance the total amount levied and the total amount appropriated for general expenses.

A general ledger is kept in the main office of the receiver of taxes, which shows in summary accounts the business done and remaining to be done in all of the boroughs.

The detailed transactions affecting each borough are recorded in a local borough ledger kept in the office of the deputy receiver in each borough.

By means of accounts current, a form of which is presented herewith, a monthly return is made to the receiver of taxes of the volume of business done in each borough, showing the condition of the unliquidated portion of the business at the date of report. The accounts current from the several boroughs can be readily checked from the ledger of the receiver of taxes, and he thereupon makes a general account current, reporting to the comptroller the transactions of his bureau as a whole. The chief accountant of the department of finance, by means of the procedure of checking the transactions affecting the receiver of taxes, is enabled to balance the account of the receiver of taxes on his books, the debit balance of which at the close of the month being in absolute agreement with the balance unliquidated in the hands of the receiver of taxes.

The advantage of keeping a general set of books in the main office of the receiver of taxes is that he has full oversight at all times of what is going on in the accounts of the borough offices. It is impossible for accounts of borough offices to get into arrears without his knowledge, and through his chief bookkeeper he has at all times every opportunity for an efficient audit of all the accounts concerning the business committed to his charge.

The collector of assessments and arrears is charged with the amount of arrears of taxes (when they become arrears, viz, June 1 of the year following the date of the levy), the same being transmitted to him by the receiver of taxes. He is also charged with all assessments as levied from time to time.

While the method of accounting in the office of the collector of assessments and arrears is precisely the same as that in the office of the receiver of taxes, the number of accounts kept in the arrears offices is very large, aggregating some 15,000 accounts, distributed in the five boroughs.

All the individual assessments accounts support a trunk fund of some nature, the fund itself being authorized by an act of legislature.

The acts provide that the funds shall be kept separate, so as to make a proper application of moneys collected to the specific bond issue.

The assessment fund accounts are also kept by the chief accountant of the department of finance, while the collector not only keeps a record of the funds, but also the auxiliary accounts thereto representing each improvement assumed under specific legislative enactments, so that in all the transactions affecting any auxiliary account a corresponding entry is made in the trunk fund, to the end that the balance shown on the trunk fund is in absolute agreement with the total of all the auxiliary accounts.

In addition to the regular tax and assessment accounts kept in the offices of the receiver of taxes and the collector of assessments and arrears, over and double payment accounts are kept. These accounts represent over and double payments made in error on each year's tax levy or assessment fund accounts.

As soon as they are revealed by the clerks posting payments to the tax or assessment rolls an entry is made in an over and double record, and at the end of each quarter recapitulated and journalized, charging the tax or assessment account, thereby showing the actual condition of the tax or assessment account.

When possible, parties paying their taxes or assessments twice or in error are notified, and when they appear to make application for refunds, the proper affidavits and all other necessary documents are prepared. The refunds, when certified by the receiver of taxes or the collector of assessments and arrears, are recorded in a record of refunds, and at the end of each quarter are journalized, charging the over and double payment account affected and crediting refunding taxes or assessments paid in error. This latter account is then closed out into the account entitled "receiver of taxes or collector of assessments and arrears."

The CHAIRMAN. We have given quite a good deal of time to this subject, and while we do not want to shut off the discussion upon any subject, I know that the question has been raised by one of the gentlemen here whether we should give much longer time to this, or whether we shall proceed to the discussion of Bulletin 20 and comparable statistics. However, before we take up that subject, I wish to call attention to the work to be taken up to-morrow—No. 8 on the programme for to-morrow afternoon: "Consideration of the Glossary of Terms proposed by the Committee of the National Municipal League: Dr. Frederick A. Cleveland, New York city, chairman of the committee."

A great many people have been working upon this subject for a good many years. One of the things to be considered in seeking a basis for future progress must be a common agreement of terms. If when one of us uses a word he means one thing and the person who hears it understands him to mean another, we can never get to any agreement; there can be no uniformity. As the basis of uniformity there must be a common usage as to terms as well as classification. Part of the work of Bulletin 20 has consisted in working out a glossary of certain terms so far as necessary for that work, but there are many branches of municipal accounts and affairs, particularly the accounts, in which the need of a common agreement is imperative.

The Municipal League appointed a committee, of which Doctor Cleveland is chairman, and a number of gentlemen here present are

also members, to work upon this plan. The query comes here whether it is worth while for this committee to make its presentation of this glossary of terms to-morrow, or whether it would be better for the gentlemen here assembled to cooperate with other bodies, not only the committee of the National Municipal League but with other bodies as well, in having a committee to consider this matter. It has been suggested that a committee be appointed by this body to go over the work of Doctor Cleveland between now and to-morrow afternoon and be ready to make suggestions with reference thereto by that time, and thus, as it were, expedite and put into a business form a consideration of those things which must be, in some respects, very important. Shall a committee be appointed to thus take up the question with Doctor Cleveland between now and to-morrow, and so bring up the whole matter for discussion when he presents his paper?

Mr. BECK. I move that such a committee be appointed.

The CHAIRMAN. You have heard the motion. All those in favor of this motion will signify by saying "Aye;" contrary, "No." The motion prevails.

I will name the following gentlemen to serve as the committee: Messrs. Howard C. Beck, of Detroit, Mich.; Duncan MacInnes, of New York; J. O. Lea, of Charleston, S. C.; Charles F. Wilson, of Denver, Colo.; and Harry T. Upham, of Cambridge, Mass.

I desire that the Census Bureau shall be represented, and I will add to that committee Mr. Maling. These gentlemen named will meet with Doctor Cleveland to consider this matter.

I was requested this morning to appoint a committee on resolutions and procedure. I will appoint the following named gentlemen to constitute such a committee: Messrs. Harvey S. Chase, of Boston, Mass.; Walter J. Shepard, of Buffalo, N. Y.; Louis Betz, of St. Paul, Minn.; Joseph T. Tracy, of Columbus, Ohio; W. McV. Evans, of Richmond, Va.; Willett B. Gano, of Orange, N. J.; Henry E. Turner, of Boston, Mass.; Harry B. Henderson, of Cheyenne, Wyo.; Walter M. Tyson, of Reading, Pa.; and H. L. Austin, of Albany, N. Y.

Now, to return to the general subject of comparability of statistics. What is needed to make Census Bulletin 20 more valuable to the people of the cities? This leads to the question which we desire to have discussed, as I stated this morning, How far are these other statistics of cities not those of finances wanted year after year?

Mr. WATSON. Mr. Chairman and members of the conference, I do not want to interfere with the order of business, but I would like to speak on the question of the collection of personal taxes, in view of the fact that in most of the states general laws are passed by the legislature governing the assessment and collection of taxes, and different states have different laws. In my state, New Jersey, real property is assessed by the local assessors, so is all other property. I would like

to know how you can get one class of personal property, such as personal property in a mill. How do they propose dividing that personal property and leaving out one class of property? Now, what I would like to know is how we can drop a person from the tax list and still have a tax left not subject to review by the courts. I would like to get at a remedy for this.

Doctor CLEVELAND. The gentleman has raised a very interesting question here, and a very vital one, but considering the fact that the question is one which has been discussed for the last two hundred years, I am wondering whether or not it would be possible for us at a meeting such as this even to suggest a remedy. It seems to have resolved itself into questions of this kind: (1) Shall we have a direct personal property tax? I am of the opinion that concealment of personal property makes necessary official inquisition if we are to get at the truth. This is very repulsive to the American mind; such a method of detection would not be possible under a government less aristocratic or less autocratic than that of Russia or Germany. (2) A second method proposed for the collection of a personal property tax is found in a tax on capitalization, thereby affording a means of reaching the individual stockholder through the corporation—that is, a charge on the basis of capital liabilities held by investors. In this we meet with all kinds of difficulties—questions of surplus and deficit, and all that sort of thing. We have problems of taxation just as difficult as in the direct personal tax, although we can make provisions for reaching a corporation so long as it remains within legal jurisdiction. But, then, the corporation may move out of the city and out of the state and go to some other state, and we have another case of concealment. (3) A third proposition which comes to us as a solution, and which has been very often attempted in this country with more or less success, is the income tax. With the income tax, however, there are quite as great difficulties in arriving at the amount of one's income as there are in determining the amount of property owned. There seem to be only two ways left to get at an equitable solution of the personal property tax problem—either to abandon it or to enforce it through the Federal Government. In this country we might have a central levying and collecting body, through which personal taxes might be collected and apportioned, in order that persons may not evade taxation by getting out of the jurisdiction. The remedy, however, would at present seem impracticable. The question proposed by Comptroller Metz comes to one of two propositions—either to accept the difficulties of the direct personal property tax and get the best we can out of it under all of the adverse conditions represented—that is, to accept a return all the way from 15 per cent to 90 per cent—or to abandon the personal property tax altogether. If we do abandon the personal tax and throw the whole burden of taxation on real estate, we have a form of

property which may be located and levied on. To do this, however, would require a complete readjustment of all the machinery of taxation. This is the situation. Can we decide the question of how to handle it here, when two hundred years of political and academic controversy have failed? It has been under discussion for the last two centuries; and while Comptroller Metz has to meet one situation, Buffalo has another, and Detroit another, but the problem is practically the same for all of them.

Mr. DeBerard. Mr. Metz's complaint is that after assessing the personal property in the city of New York, the owners slide out—go somewhere else until the assessment simmers down to $600,000,000. Now, movable property will take itself to the town where it is taxed least. That is a fundamental thing in taxation. The city of New York has immense amounts of taxable property which seek other places when assessments are made. Comptroller Metz's problem is to keep that property where it can be taxed. The way to do it is to make a lower tax rate upon personal property in the city of New York than is made in the surrounding states; make it less than the tax rate upon realty, with the probable result that the immense volume of personal property which now seeks to evade the tax would come forward and submit to taxation.

The Chairman. Is there any further discussion of this? If so, I would be pleased to have some one lead the discussion.

Mr. Shepard. In some cities it is customary for the moneys used for the payment of interest on the public debt to be included in the sinking fund. In other words, the moneys used for the redemption of debt and for the payment of interest on debt are included in one account on the books, and this is called a single interest fund. Of course, in computing the net debt of a municipality, it is proper that the amount in the sinking fund should be deducted from the total bonds outstanding, in order to determine the net debt.

The Chairman. The general rule governing that may be logical or illogical. If the money is known as an interest fund and is carried on the city books as such, it is treated as a sinking fund. If, on the other hand, the city is carrying this money with the city cash balances, it appears with the city cash balances—we have not separated it, but left it there. If anyone wishes to consider that as apart, in its relation to the debt, as the amount of that cash is given in the table, he can deduct that as well as the other. It has been difficult for the Office to make a working rule as to the separation of what was cash for the meeting of current obligations and cash which was held, and held only, for debt purposes. Let me state a general proposition governing our selection or separation of cash in so-called interest funds from that which we call sinking fund proper. If the cash in the sinking fund appears to be cash that can be touched at

any time for any purpose, then the instructions to the clerks have been to treat it not as a sinking fund but as a purely administrative cash fund; but if the cash is set aside in any other form, and can not be diverted and can not be used for current expenses, it is a sinking fund. We should find a better separation if there is a better one.

Mr. BECK. Would it not be possible to deduct the money in the sinking fund from the amount in the interest fund? Would that not give you the amount of net cash in the fund available for debt at the close of the fiscal year?

The CHAIRMAN. The claims outstanding of any kind, whether interest or anything else, we have not considered, not because they ought not to be, for they ought to be, but because we find among the 175 cities at least 169 different ways of reporting unpaid claims of various kinds. Now, while the unpaid claims should come into final and perfect statistics, it is folly for us to attempt to take up unpaid claims at the present time until we can secure data upon something like a comparable basis. Everyone knows there must be unpaid claims which should be recognized; but, on the other hand, there are unaccounted for assets not taken into account, and they are found in the cities that have large amounts of unpaid claims of various classes. They are usually—not universally—the uncollected and uncatalogued assets.

Mr. CHASE. I would like to ask Mr. Powers what percentage, in his experience, is represented by unpaid claims.

The CHAIRMAN. I should not want to express an opinion, because there are so many different claims. For example, some cities pay salaries on the first of the month, and then there is one month's salary always as an unpaid claim. Our exhibit, based upon that payment, will be lapping over one month each year. Other cities have but two weeks of salary. Now, one city has one class of unpaid claims and others have another. We have found, however, a reasonable rule for reporting these unpaid claims in a way that will not do any harm. If we put a city that shows up these unpaid claims in a proper way beside the city that does not have anything, we make an unjust comparison of the city that has a proper account with the city with no account at all.

Mr. CHASE. What is the per cent; about 2 or 2.5?

The CHAIRMAN. I think that varies; but it is about 2.5 to 5 per cent.

Mr. CHASE. Is there an offset to that?

The CHAIRMAN. Yes, sir; and there are varying amounts of uncollected taxes. We have not tried to get an exhibit of the amount of uncollected taxes, or the amount of uncollected taxes which might be collected.

Mr. RIVES. Is it not a fact that various cities of the state bring into their statements of assets, balances that should not be put in? Is that not a fact?

The CHAIRMAN. We are going to have "balances" to-morrow, and we will discuss them then.

Mr. HENDERSON. Mr. Chairman, I will ask a question. I would like to know how you treat this item in your Bulletin 20, which I have not had time to examine thoroughly. Interest is paid on account of bonds for the current year. Is the administration then in power chargeable with that interest as an expense of maintenance? Do you charge that item in the maintenance column of the municipality, or does the charge appear against the interest fund instead of being included in the expense item?

The CHAIRMAN. Interest is charged, or tabulated in our report, wholly as interest, with one exception. In 1903, in the city of New York, in the construction of the subway, that city, in keeping the account with the subway, has properly (according to the rules of accounting) charged up the interest of its subway loans during the construction of the subway to outlay. That is according to well-known rules of accounting. I expected Professor Elliott, of Columbia University of New York, and also a professor of the University of Wisconsin would be here to call attention to this subject of interest in the matter of school statistics. Shall we, in the matter of school statistics, charge up the interest on school bonds? Shall we charge up interest in each one of these items? If you will recall my paper of this morning, you will remember that I said that one of the things which must be discussed before we reach truly comparable statistics is, "Shall interest be charged in a lump sum as interest; or shall we keep an account of this interest for the separate items, such as maintenance of parks, maintenance of schools, streets, and the like?" We present this question, and we would like the accountants here present to answer the further question: How far should this interest be charged to make comparable statistics of these separate items?

Let me state the problem for schools as it presents itself to me. How are we to secure these comparable statistics? We find that some cities seldom borrow for schools, but raise money for streets, sewers, and the like by issuing bonds. A large part of the school-houses are paid for out of current revenue. In other cities, where there is another set of political questions—not school questions but economic questions—it is necessary to have a good reason for contracting debt, and a school is something for which people are ready to run in debt. The result is they use all the current revenue to make appropriations for all permanent improvements except schools. So you will find in one city almost all of the debt charged to schools, and in another city that has just as many schools there is scarcely a

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dollar of debt charged for schools. Now, if you charge up the interest in one city having no more schoolhouses than the other, you are enormously swelling the school exhibit at the expense of the other departments. What is true of schools you will find true of other city departments as between different cities. I see the necessity, if you are to have a true accounting relating to public industries, that you must not simply have an account of the interest on the debt but the interest on the capital.

Take two cities with waterworks, each costing $100,000. One of the cities has borrowed the money and has carried it along and still owes $100,000. Another city has paid in one way or another, by revenues from the waterworks, by general taxation, by special taxation, or otherwise, $75,000 and still owes $25,000. If we are to get comparable statistics relating to that municipal industry, we must charge, not in the one case the city owing $25,000 and in the other the one owing $100,000, but we must bring into consideration all that a business man would—the full interest on the total amount of the cost of the concern. We should, in treating municipal industries, charge up in that account for the final and correct accounting of statistics relating to it the full amount of interest on the capital, and not that which we happen to find for the time being.

Then the question which is to be considered as the interest on account of schools must be the interest on the same basis, not upon the incidental or accidental amount of bonds that may be outstanding. This is determined, not by any relation to the value of schools or interest on the school debt, but by little political exigencies which have resulted in a large amount of school debt for one city and a small amount for another. There is not any such thing as economic and financial relations between the purpose of a debt and the amount of that debt. We have, as I look at it, two separate lines of facts that must be kept in mind for our work. First, the movement of cash and the purpose for which that cash is used in its relation to accounting; then comes the accounting proposition for the industry. Now, with reference to the other matter, we have not yet put our accounts upon the revenue basis. They are treated as cash accounts. There are a great many laws relating to the subject that we have not followed, but we have followed the cash item for the time being. We must keep it uniform. We have not called in question the wisdom of a revenue system of accounts, that shows the interest not according to its payment, but according to its accrual.

Mr. AUSTIN. Is it not a fact that all interest upon bonds issued for public improvements is properly a part of the capital outlay—is part of the capital invested in that public improvement—and should therefore be charged to the capital account, while all interest

upon bonds issued in anticipation of taxes is a part of your every-day going expenses, and should be charged to the maintenance of the city government?

Mr. Betz. I think we are bound to differ a great deal on this subject; but we might consider it from the standpoint that the city had no money to operate schools with, though very badly needed, and did not want to issue bonds, then it might rent a building. Now, if such a city were paying a rental and charged it to capital outlay, I think it would be quite proper to charge it so. Because, if you raise a million dollars for sewers, you are charging for the repairs to those sewers, and the interest charged is part of what those sewers are costing. You are not paying any rent, but that is charged up to maintenance account. If a man buys a house and borrows the money, the interest he pays is the same as the rent he would be paying for the house. It seems to me it would be proper to charge that to capital.

To refer again to claims that are not paid—special revenues that are not collected. It seems to me that the main idea of these statistics of Bulletin 20 is to collect data that are actually on hand, relating to all the payments which have actually been made in that one year. Now, we have about forty million dollars of revenue outstanding that we are not going to be able to collect. These government statistics that you are going to bring up should be almost absolutely correct, so that nobody can question them. The most simple, common, everyday man should understand them. You have got to have sharp lines drawn if you want to have statistics coincide. I think we ought to leave out possible revenues and possible claims.

Mr. Chase. With regard to that question of interest, it is certainly an exceedingly important one, and must be considered as an accounting proposition. I would like to make a statement or two, taking the two propositions which are set forth by the chairman. In one case, the city builds a number of schoolhouses, raising the money by tax levy; in the other case, raising the money by bonds. In the latter case cities are apt to pay interest on the bonds; and in the other case, they do not pay interest. The first case in which the money was raised by tax levy has taken so much money out of the pockets of the taxpayers with which to build the schoolhouses. Theoretically the people in that community have large interests in that money which was taken out of their pockets and put into the schoolhouses.

Therefore, taking the community as a whole, the proposition is as broad as it is long. But, taking it as a corporation, the corporation pays interest in one case and in the other case it does not. This is in connection with municipal industry, which will be taken up later,

but which I may touch upon now. Interest payments, it seems to me, should be looked upon as charges against the capital and not as elements of expenditures, using the word "expenditures" technically. After all elements of expense have been charged against revenue, such as wages, taxes, depreciation, guarantees, damages, etc., there are left expenditures on account of sinking fund, interest, amortization of franchises, and on account of capital as separate propositions to be handled afterwards. Interest is charged up—interest must be charged up—but let your interest account come after a comparison between revenue and expenses. Then you will eliminate any trouble with doubtful quantities which have to be handled in another way.

Mr. MACPHERSON. One gentleman spoke of maintenance of public improvements being a charge against capital. Now, it seems to me that there is room for division. I think interest on public improvements in the nature of contributions by taxpayers in a special levy is a proper charge against capital, because it was not contributed out of the general funds; but interest on school funds, interest on loans against tax levies—interest of that character should be charged against current operations and not capital.

Mr. AUSTIN. I think I made that distinction in my remarks. Interest on all loans in anticipation of taxes or similar loans should be charged to running expenses or maintenance of the government.

Mr. TURNER. Mr. President, I did not intend to speak at all. I dislike to disagree with people. This question of interest, it seems to me, should be treated precisely the same as a business concern treats interest. You buy a schoolhouse and have not the money to pay for it. Charging interest to capital does not increase the value of the property at all. It seems to me the expense for interest in all cases is something that must be paid in order that we may live. It seems to me we ought to charge that to the current expenses.

Mr. CHASE. I understand this is for comparison.

Mr. TURNER. Simply charging interest to the capital account on public improvements, as the word has been used, or on any proposition where you buy property.

Mr. CHASE. I think the auditor of Massachusetts is quite safe, but in the statement we handle it exactly as private corporations handle it. I think he makes it quite narrow, because public corporations charge all interest during construction to capital account; when completed, it becomes a part of the corporation cost.

The CHAIRMAN. Only until they begin to operate it.

Mr. TURNER. Talking about schoolhouses—if we have not the money to build schoolhouses, we have not spent it.

Mr. CHASE. But the principal.

Mr. TURNER. On a twenty-year loan, such a contract is all you want in anticipation of completion, whatever the improvement may be.

Mr. CHASE. But during the period of construction would your interest be charged against the cost of the schoolhouse?

Mr. TURNER. I do not think the schoolhouse would be worth any more if you add interest to cost. It is not done by private corporations.

Mr. CHASE. All private corporations?

Mr. TURNER. All street railroads and the corporations that I am familiar with.

Doctor CLEVELAND. In respect to the remarks by Mr. Austin, it seems to me that he is in this situation: If he adds interest to his cost of general improvement, the same as he would on construction, he would have an increasing valuation on streets, etc. In other words, he would have a situation such as I found a few days ago in an institution. An amount had been given to it which was invested and the income used for the purposes of the asset. Well, they invested it and charged up a certain amount of interest. They increased their capital fund every year, and they had this growing at the rate of $2,000 every year. Now, it seems to me that is Mr. Austin's proposition on general improvements—adding your cost every year.

Mr. Chairman, you raise the question, whether or not you would charge up interest on a building that has been paid for. We will suppose a schoolhouse has cost $100,000 and the community paid for it. Now, what has it done that for? In order that it may reduce its current expenses—the expenses of capitalization of the school. They have taken the money out of their pockets and put it into the schools. If, in their opinion, they can take money out of their pockets to a greater advantage than they can borrow it, they will take it out of their own pockets; but how are they to determine whether it is for their advantage? The only way they can do is not to charge up interest on that. The only way they can get rid of that is to declare an income on the other side. Here on one side, income, and exactly the same expense, one declared as a dividend and the other set up as a counter entry. Now, the question after all comes down to this: What do we want to know? Don't we want to know relative costs of operation? Take an electric light plant, take a school; don't we want to know what is the cost of operating that school, and whether or not we are economical in our administration? Therefore, from a point of view of municipal economy, we can eliminate those property expenses and come right down to the cost of operation, of salaries, of repairs, of maintenance, cost of equipments, schoolbooks and supplies, and things of that kind. In other words, if you get down to

administration accounts, you are apt to confuse the minds of the readers and tangle the administration.

The CHAIRMAN. That is a proposition of which we are going to speak. I brought the matter up that it might be discussed.

Mr. WATSON. Now, see if you understand this as I do. This question was raised only to give the Census Bureau a hint of what we thought of the question which we have discussed, and what our citizens or our cities might think of it. What you want is instruction as to how you ought to proceed.

Mr. BETZ. If one city has a water plant with a million dollar debt against it, and another has twenty-five million dollars against it, let the other find out how the first city has paid that off.

Doctor CLEVELAND. That is my point, with this condition: that if you put up the expense on property expenses here, in addition to your operating expenses, you will show not only the economy in the expenses of administration, but the economy in the property expense, which has to be accounted for in your asset and liability statistics.

Mr. BAKER. I wish to say a few words as to the use to which these statistics are to be put. There are a large number of engineers and superintendents of public works who have to consider the cost of the public service. The discussion thus far, to a very large extent, has been from the viewpoint of the accountant, who is responsible for giving an account of certain moneys received and paid out, and who looks upon this question more largely from the standpoint of bookkeeping than the engineers. Now, as you all know, the engineer is looked to, to give some guidance to a municipality as to what a given public improvement would cost, and as to what it would cost both in construction and in operation. It is absolutely essential to differentiate completely and accurately the cost of construction and the cost of operation, if we are going to have any municipal statistics that are of any use whatever to the engineer, and he wants the statistics for the taxpayer. It is the interest of the taxpayer that we are all trying to serve. Now, I repeat, we can not get any statistics that are worth the paper they are printed on until we actually separate construction costs, capital, and also operating expenses.

Now, you gentlemen who are accountants can call those things anything you please, as seems best for your purposes, so long as we can pick out and combine and can know on which hand to put these two relative classes of expense. Coming now to the specific problems of schools and speaking of that somewhat from the standpoint of taxpayers: The board of education is continually confronted with the problem of getting money enough to run those schools in accordance with its ideal and their high standing. Every once in a while some one comes along with comparative statistics and tries to prove that

the cost of the schools in Montclair is higher than in the surrounding municipalities. I make no boast of the way the accounts are kept; I have not looked into it; but if it were to appear that the cost of the schools in Montclair is higher than in any of the surrounding communities, we must know not only the operating expenses—the amount paid out for capital, salaries, and general services, etc.—but we must know the interest charges on school buildings. It may be that our board of education is extravagant in the class of buildings it provides, and, as it happens, that is true. They are culpable for building very artistic schoolhouses. Now, we must know the interest charges on those school buildings. If those interest charges come into the general fund, we have lost an important element in our system of comparison. Every public industry should stand on its own ground, so should every class of municipal improvement; and in order that we may know that they are so standing, it is absolutely necessary that we differentiate continually, completely, and accurately one from the other.

Mr. AUSTIN. Mr. Chairman, what seems to have been taken as a proposition was put in the form of a question, and I had no opinion on the matter myself at that time. Since then the continual roasting I have had in two or three directions has simply changed my question into an opinion. I still think that the interest on a public improvement is not a part of the running expenses of the government at all, but is a part of the cost of that improvement. If you choose to pay for your improvement in installments, it will cost you more; if you choose to pay it all at once, it does not cost you so much. There is a difference between cost and value.

Mr. CHASE. I would like to ask the gentleman a question. Bonds are issued for $5,000, with interest payable annually; and, in another instance, bonds are issued for $50,000 to build a schoolhouse, interest payable annually. Should the interest in both cases be charged against the assets of these school buildings; and if so, where should it go?

Mr. AUSTIN. I think in both cases it should be charged against school buildings as outlays.

Doctor CLEVELAND. The reason which you give makes it clear that one should pay this from current income or current revenue. Now, if a city pays it as a capital outlay, you do not expect to raise capital to pay off the same. If you are going to make it a current charge—that is, an expense—then you must meet it from current revenue.

Mr. MACINNES. All statistics should be as clear as possible as to what the comparative cost has been. Is not that the principal aim of the Census Bureau?

The CHAIRMAN. That is.

Mr. MacInnes. What we are trying to determine is the relative cost of conducting the business of one department in comparison with that of conducting the business of another. It does not seem best to engage wholly in splitting hairs on the question whether interest which you pay on bonds is to be divided among school bonds, or street paving bonds, or street betterment bonds, etc. The interest on such burdens is absolutely a part of your maintenance expense. We have got to distinguish between the public enterprise, such as the subway in New York, which meets the interest on these bonds from its revenue, and the schoolhouse, which we have erected for the purpose of educating our children and which will never be anything more to us than a public expense. Every year it will be an expense—it is a part of the expense for the education of our children. Is the interest on those bonds and the provisions you make for sinking funds a part of the expense of general administration? It is a part of the expense of that particular school.

If the Census Bureau should endeavor to segregate interest on sewer bonds, school bonds, etc., we might as well try to follow the trail of the sandhill stag. What value would statistics such as these be to us? It seems to me that the value of these statistics would be the greater the better they show the administrative cost. The average interest on their debt would indicate the city's credit, and it would be apparent to my mind that the city had not issued these bonds for schoolhouse purposes and given a mortgage on the schoolhouse itself. The schoolhouse is not going to meet the expense. It is a part of the expense and it should not be classed in the same category as enterprises instituted for the purpose of making the revenue meet the cost. It is proper to include the interest with the cost up to the time that the period of operation is reached. As soon as the period of operation is reached the interest becomes an expense. It seems to me, Mr. Chairman, that the statistics that your Bureau is compiling—and it seems to me that they have been intelligently compiled—should be conducted along a reasonable path—a path that leads to something in the end, as interest on bonded debt. The method of comparing the rate of that interest with the rate of other cities would be the best. We would then get statistics that would mean something. In the early part of the discussion Mr. Beck, of Detroit, I think referred to the sinking fund created for the purpose of paying interest.

Mr. Beck. I did not say that we did.

Mr. MacInnes. There can be no such thing as a sinking fund for the purpose of paying interest on debt. It is a yearly charge. In the city of New York we have a sinking fund for the paying of interest on debt. It is a misnomer; it is not a sinking fund. It is a fund for paying interest direct from the taxpayer. It is simply a fund into which various revenues are paid. But to prevent confusion of one

thing with another the creating of a sinking fund for that purpose was done. I have brought this before you, Mr. Chairman, simply for the purpose of illustrating something which was in reality.

Mr. BECK. Just a word. An illustration of the means of distinguishing between "capital stock" and the "operating expenses." There is a relation between them which is very commonly overlooked. If a city should buy a pumping engine, the cost of which is a hundred thousand dollars, the capital charges would be high on that account; also the interest on indebtedness. It can buy another pumping engine for $50,000 which will pump an equal amount of water, but the operating expenses will be greater in this instance. There is not much difference in their earnings. This is also true of public improvements, to a greater or less extent, and would apply to a school building if the school building were on as large a scale as a lighting plant.

Doctor CLEVELAND. I want to say one word in reply to Mr. MacInnes's remarks. Mr. MacInnes would exclude the amortization and sinking fund charges from expense. In other words, he has the same idea of expense that has been expressed before. He would make the fixed charges, as he states them, the interest charge on capital or on bonds, etc., for permanent improvements. He would convert that into one account, and then he would have another operating account which would be kept for disbursements for certain items in departments. When speaking of cost, all of us would have the cost of administration in mind—that is, the operation of the department, or whatever it might be, which had to do with salaries, repairs, supplies, etc. That is, part of us would have classified accounts and fixed charges, and Mr. MacInnes would have only one account, the fixed charges.

Mr. MACINNES. I did not speak of public enterprises. I did not touch on that. We are quite in agreement on public utilities. It is only a question of governmental activities. Where a city has a total fixed charge of $100,000 the question arises, How is that to be accounted for? There is a charge of a hundred thousand dollars on account of capital charges, expenditure for fire houses, etc. There is a charge of another hundred thousand dollars on account of street paving; another charge of a hundred thousand dollars on account of sewers. In order that we might have before us a picture which represents our expenses for all operation, and our expenses on account of capital investment, we would charge the same way that we would charge expenses, in the same way that we would in case of a gas plant—for the expenses of operation, so much; capital and operation charges, so much. We would charge it to capital expense, for it is not an expense account; it is entered in property expense; it would be like earnings; like insurance or interest; that is, a capital expense. If you pay insurance, you would put it in your property expense. If you

pay interest, you would put it in the same expense. Now, you put your property tax into property expense and then you are able to compare one city with another and see how one city is saving by the taxpayer going down into his pockets.

Mr. BECK. I want to ask for information on a particular point. The matter has come up in discussion to-day and I think the information would be particularly interesting. I would like to have shown the rates of interest received by the various cities.

The CHAIRMAN. I will say with reference to that, that we give interest from all other sources, which include the interest on balances and miscellaneous sources. If it is desired, we can (we can not do it for 1904, but we can for 1905) show not only the gross amount, but easily ascertain the rate of gross per cent. We have not shown that, but Mr. Beck has brought out a question along a line that I am very anxious to remedy. We appreciate the value of such a statement, and we want to know what you are anxious to know. We do not furnish that information, but if it is desired, we want to furnish it. Now, then, give us as many such facts as you can and you will make this conference not only very interesting to us, but will enable it through us to make the future bulletins more interesting to you.

Mr. HENDERSON. It occurs to me that it would be pardoned if I were to ask a few questions as to the rate of interest that is being paid upon bonds issued by the municipalities. I found in the discussion that cities of relatively the same size, and perhaps without much difference as to general resources, were paying a different rate of interest on their bonds.

The CHAIRMAN. I should say, Mr. Henderson, with reference to that, that the next bulletin, which is for 1904, will give the amount for each city, the rate of interest, and the actual interest charged.

Mr. BECK. I do not think you quite catch Mr. Henderson's point. The question as raised by him is this: What is the rate of interest of the bonds in comparison with the interest basis upon which the bonds are sold?

Mr. SHEPARD. I do not know whether you want any suggestion or not—whether we have time for any suggestion or not.

The CHAIRMAN. Yes, we will take the time.

Mr. SHEPARD. Although I have looked over Bulletin 20 quite carefully, nevertheless I am like some of the other gentlemen, I have not read it from cover to cover; but it seems to me the average taxpayer is more interested possibly in his own city figures. What does it cost a man who owns a piece of property assessed at 100 per cent and the valuation being $10,000—what does it cost him if he lives in Chicago, New York, or Cleveland, for city, county, and state taxes? Now, the statistics of cities do not mean much if we do not bring in the county,

as in Chicago, or if we do not mention something about the state. A taxpayer is interested in what it would cost him if he owned property in half a dozen different states—what it would cost him for all these taxes. Now, that may be a tremendous undertaking; but after all, how are we going to prepare the tax rate so as to be of real value unless we can get down to the total taxes a man pays.

Mr. HENDERSON. Do you not refer to the number of mills on the dollar?

Mr. SHEPARD. Yes, sir.

The CHAIRMAN. With reference to that, we hope ultimately to bring into these figures all the taxes. Most of you who are accountants understand all the complicated organizations that exist in most of your New England sections. We have met with a great many organizations which run one through the other, the township and the school district, the fire district, for instance, and it is sometimes very difficult to work out the problem; but we have it in mind. It has been suggested by one of our brightest men, Professor Farlie, that it is one of the things that we should set ourselves to do, and it is one of the things that we have in mind. We are engaged in determining, as far as possible, the true ratio between assessed valuation and the correct value of property in a given city. Until we have some basis on which we can measure the cost of this thing, and that, and the other, we can not tell how much the burden of taxation is upon a given man or upon a given amount of property, say ten thousand dollars. You may state that ten thousand dollars is the assessed valuation, but with that valuation in Chicago at 11 per cent, while in Boston it is 100 per cent, it becomes a very difficult proposition.

Doctor HARTWELL. As to comparative per capita statistics, I would suggest that the Chicago figures be printed in red ink, because in them we have a stumbling block that makes trouble for the tyro in statistics. You find what seems an enormous tax rate till you learn that it is based on an attenuated assessed valuation. The Chicagoan's burdens are laid upon him by a large and grotesque group of taxing bodies, sanitary and park districts, South Town, North Town, Cook County, and the like. The Chicagoan knows what it all means; but the Bostonian, whose state, county, and city taxes are all rendered in one bill, does not understand it and is apt to grumble when the tax rate of Chicago, as it is usually stated, is compared with his own. Unless one knows something about the assessment systems and the bewildering variety of urban, semiurban, and rural communities connoted by "Chicago," the comparison of per capita expenditures in Chicago and other American cities tends to misleading conclusions. Per capita comparisons between cities is a widespread and frequently ill-advised habit in this country.

I would suggest to the Census Bureau that it does not indulge in per capita comparisons except in census years, when a reasonably accurate count of the living inhabitants is taken. The Census Bureau, I venture to say, is not capable of showing the actual rate of increase in intercensus years in a very large percentage of the municipalities, either on the basis of the estimate which it has adopted, namely, the arithmetical, or upon that of geometrical increase. The growth rates of American cities vary so much from one another, and so much in the case of individual cities from year to year, or at least from half decade to half decade, that per capita comparisons in intercensus years are apt to be of little value, as is also the case with comparative death rates.

In estimating the burden of debt upon a community, or the burden of debt upon individuals in a community, I have come to consider that the ratio of debt to valuation (you can standardize your valuation) is a fairer criterion of the burden of debt than per capita statements, which are based upon rates which may have been correct five or ten years ago, but which may not be correct at the present time, and that the next census may clearly show to be incorrect.

While I am on my feet there is another point which I would like to bring up. Attention has been called to the fact that the rates of interest paid by municipalities having approximately the same bonded debt differ widely. There is another element in determining the relative cost of administration, and that is the size of salaries paid to city officials of the same class. They vary as well as rates of interest and they vary greatly. If the Census Bureau were to show the local, popular estimate of the value of the services of mayor, city councilmen, and aldermen, in the several cities by stating the individual salaries paid in each class, it would shed a certain amount of light upon their local valuation. But unless one knows the general scale of salaries that bank clerks, laborers, foremen, etc., get in the different towns, we can not tell, really, whether the civil servants are overpaid or underpaid in comparison with those of another city. In estimating the cost of administration of different cities some regard should be given to the purchasing power of money in those cities. According to my observation and experience it varies considerably even in our leading cities. In arriving at a sound basis for comparisons it is necessary, also, to know whether departments bearing the same name perform the same kinds of service and no other or not. For instance, Baltimore has a board for licensing the sale of intoxicating liquors in addition to its board of police. In Louisville, if I am correctly informed, licenses are issued by the sinking fund commissioners. In Boston the board of police acts also as a licensing board. Comparisons, per capita or otherwise, as to the cost

of police protection in those three cities would manifestly be unsatisfactory unless the differences in service rendered were taken into account in determining the basis for comparison. Budding statesmen and amateur publicists are bound to use the tables of Bulletin 20 and its successors in ever increasing numbers. My plea is that pitfalls and stumbling blocks should not be left unnoted.

Mr. WILLIAMS. I would like a little more detailed information as to receipts from licenses, fines, and fees. I know that awhile ago when I was checking up the items in Rochester I found that we did not seem to get as much from them as other people do, and I want to know why. If we knew just what the other cities receive from the source detailed here, we might learn why others receive so much.

The CHAIRMAN. The same suggestion has been made by a dozen different cities and while we can not give it for the year 1904, the matter is in contemplation for 1905.

Mr. BECK. Now, another point. Receipts from liquor licenses: In Detroit the city gets a portion of the tax on liquor licenses.

Mr. BAKER. Mr. Chairman, I wish to call attention to the fact that the picture of tax rate and of indebtedness is incomplete unless one takes into account the extent to which municipal ownership prevails in the respective communities. In our city budget, for instance, nothing appears, not even the waterworks, electric light works, etc. Therefore, in order to complete the picture, all such matters must be taken into account. Another important thing that has a bearing upon relative tax rates and indebtedness is the extent to which special assessments for public improvements appear. Of course, while we all understand these things, the fact is that we wish to get them upon the record. I wish to urge again, in the interest of city officials, as well as the accountants, that the Census Bureau, as rapidly as it can see its way to do it, give us more of the diversified statistics of cities than are found in Bulletin 20, or in any of the bulletins preceding it, or in all the bulletins issued by the Department of Commerce and Labor. Other classes of statistics are needed. Data for many of them are not so difficult to obtain as the financial statistics which are given.

The CHAIRMAN. Another question which it is desirable to answer, not only for the division over which I have charge, but for the other divisions as well: Should these statistics be published every year?

Mr. BAKER. I have not thought very much about that question, and might wish to revise any point I may give at this moment; but I should say offhand that it would be better to give a wider range once in two or three years than it would be to give a narrower range every year.

Mr. SHEPARD. There is a chance for difference of opinion on that subject. The average man, who is not up in statistics, will find

that a large volume is very misleading and incomprehensible. It seems to me that certain subjects to be treated should be placed in a smaller volume, so that it would be more intelligible to the average man. If you will pardon me, just one other suggestion. In many cities there is a great deal of discussion as to whether the police are on the basis of two patrols, or whether the firemen are on the basis of one patrol or two. For instance, comparing Cleveland with Buffalo. The expenses of the police in Buffalo are possibly $700,000; and in Cleveland, $465,000. It indicates at once a tremendous cost for Buffalo, yet we have a three patrol system of police, while they have the two patrol system in Cleveland. That, therefore, makes a large difference in the cost of our police and our firemen. Our police and firemen are now claiming that they ought to have only twelve hours on duty and twelve hours off duty, and it is becoming quite a serious proposition with us, and I would suggest that such fact should be set forth, because it makes a great difference in the cost of the police and fire forces.

The CHAIRMAN. I will make an announcement before we go further and that is that the President will receive the members of this conference to-morrow at 12 o'clock. We shall need to leave here about twenty minutes before 12, so that we may be promptly at the White House at the hour set.

There has been a suggestion that the evening session be given up to fiscal officers alone. Before the meeting of the conference there was a suggestion that the fiscal officers, who meet here, discuss the desirability of a permanent organization of such officers. It was thought at one time that they might desire to devote a third day to such a meeting. Arrangements were made to secure this room, but as many desire to go away to-morrow night, it has been suggested that the fiscal officers meet to discuss that question to-night. The question of adjournment will be left for the gentlemen present to decide; whether we will have an evening session or adjourn until to-morrow morning and give the evening and to-night to the fiscal officers.

Mr. HENDERSON. Mr. Chairman, before we adjourn this afternoon, I want to bring up a matter of importance that is not contained in Bulletin 20, for the simple reason that it is impossible to secure the information. I do not know how it may be in the East, but in the West, the middle West, and the Pacific coast, there is a cry going up from the municipalities for municipal regulation or municipal ownership, and all kinds of figures and theories are set forth. Some are so unkind as to say that the persons who advocate such measures are demagogues. Now, there is absolutely no source that is reliable from which to obtain the information that is sought to-day by thousands of municipalities in the United States touching the manage-

ment of public service industries under individual ownership or private corporations, and under public corporations. Director North, this morning, alluded to this matter in his paper, and pointed directly to the fact that there were no means provided whereby this information could be obtained. It seems to me that this conference can accomplish something looking toward a determination of this matter. This is a time when the people of the United States are doing things. The private corporations, I believe, will have no objections to furnishing the information that may be asked for by the Census Bureau, if there is a law requiring them to furnish that information. In fact, I am not sure that you require a law. Neither will these municipalities have any objection to furnishing such information, provided that uniform blanks and forms for making returns are furnished. I mention this matter, Mr. Chairman, because I believe that only through the Census Bureau can this relief come. If your department be the department through which this relief must come, then I believe the time is at hand when a beginning should be made. I mention it so that we may discuss the subject before we adjourn.

The CHAIRMAN. That matter will come up to-morrow.

Mr. KENNEY. I suggest that this matter be thoroughly thrashed out in this conference. I represent the city of Holyoke, Mass., which has probably the largest municipal lighting plant in the East. I will illustrate the difficulty of getting information. Our city petitioned the gas and electric light board of Massachusetts for a reduction in the requirements to meet depreciation. A new law was carried through the legislature last year which makes our departments show, not a book account but a cash account. Depreciation may differ in different plants. The commissioners determine. It is fixed at 5 per cent, but if required, it may be more. We bought this plant for $720,000 and we got a dilapidated concern. Under the laws of Massachusetts, if a municipality desires to enter upon municipal lighting, it must vote first on that proposition. Having voted to do so, it can not enter into possession of that plant at once. If you are going to acquire a water plant in that state, you might enter into possession of that plant, and you might operate it; but the gas plant remains in the custody of the original owner until you and that original owner have agreed upon a price. The Holyoke Water Power Company owned our plant, and they asked us a million dollars for it. We refused to pay a million dollars, and the superior court appointed three commissioners to determine its value. It took the three commissioners and several very able members of the council—experts on both sides—five years to find out what that plant was worth. Naturally the Holyoke Water Power Company put no money into the plant during the five years, beyond what was absolutely necessary.

At the end of the five years it cost us $110,000 to put it in order, and the commissioners declared it was worth $725,000. The law does not give the company anything for a franchise. The commissioners are all able attorneys, and they discovered that there was something which looked to the average layman like a way of getting around the franchise. They said you could not get anything for a franchise, but the Holyoke Water Power Company created a market, and you must pay for the market. We have since that time put almost $300,000 into that plant, so it stands us to-day at $960,000 of actual cash spent. We have issued bonds to pay for it. Some run thirty years, some ten years, and some fifteen years. We have reduced the price of gas; we have given a better quality of gas; and we have made money besides. When this new law went into effect we asked the commissioners if they would reduce the depreciation account. It was put at $55,000, which was to be set aside as a fund for the purpose of making additions. We were allowed absolutely nothing for anything put into the plant since we acquired it. At the first informal meeting in the statehouse in Boston, in discussing the matter one of the commissioners declared that it would be an outrage to ask the city of Holyoke to set aside 5 per cent each year. Furthermore, he said it was entitled to consideration for what it had put in, and that money would tide us over for five years. A formal meeting was held in Holyoke and we presented our case. Shortly after that a decision was rendered and here is the point I want to make: There is a difference between the report made by the Census Bureau and the report made by our state department, as to the value and the cost of our municipal lighting plant. According to the Census we are allowed things which the state department of Massachusetts will not allow. This is a big question to us and I trust that it will be thoroughly discussed, and that I may carry home some light that will help us when we come to the state legislature.

The CHAIRMAN. Is there anything further? Will Mr. Chase, chairman of the committee of ten on arrangements, read again the names of the committee before we adjourn?

(Mr. Chase reads the list. See page 44.)

After a short discussion as to the time for holding the next session, the conference adjourned until 9 o'clock Wednesday morning.

THIRD SESSION, WEDNESDAY MORNING, FEBRUARY 14.

The conference was called to order at 9.30 a. m., by the chairman.

The CHAIRMAN. The meeting will come to order. Yesterday a committee was appointed on programme, to consider the subject of procedure for to-day. Mr. Chase is chairman and will report.

Mr. CHASE. The committee upon resolutions and procedure, having requested Mr. Powers to assist it, and having carefully considered the primary reasons for the calling of the conference by the Census Bureau, advise that the following procedure be adopted:

(1) That consideration of items 4 and 5 of the preliminary programme be postponed until the evening session of Wednesday, which shall be devoted to their discussion.

(2) That item 6, "Consideration of books of account and methods of reports for cities," be taken up immediately and made the business of the morning session.

(3) That during discussion no member's remarks shall continue longer than five minutes, and that the chairman of the conference is respectfully requested to promptly notify a speaker whenever this limit of time is reached. This limit is set in order that we may complete the programme in the time available.

(4) That item 7, "Municipal industries and public service corporations," be considered at the afternoon session at 2 o'clock, and the discussion of this subject be closed at 3.30 o'clock, when item 8, "Consideration of the glossary of terms," shall be taken up. Limits to discussion as before.

(5) The evening session shall be devoted to discussion of "balance sheets" and "revenue and expense accounts" under the same limit of discussion. During the afternoon or evening session this committee will report a formal set of resolutions to be acted upon by the conference. Those resolutions shall embody the views of the committee and of the members of the conference in relation to the primary objects of the meeting. Those resolutions shall be so drawn that they may be utilized by the city officials attending the conference as the basis of reports to their respective city governments, and shall briefly set forth the conclusions of the conference in regard to the practical application of the distribution of accounts and titles of the Census schedules to the annual reports of all cities. Those resolutions shall urge upon city councils the importance of authorizing the financial officers of each city to rearrange their annual reports according to the "uniform" distribution of the Census as promptly as may be practicable.

For the committee:

HARVEY S. CHASE, *Chairman.*
HARRY B. HENDERSON, *Secretary.*

WASHINGTON, D. C., *February 14, 1906.*

Mr. HENDERSON. I move adoption of the resolution.

Mr. CHASE. I second the motion.

The CHAIRMAN. You have heard the motion seconded. Is there any discussion? If not, I would suggest that if there are any persons who object to the five-minute rule, now is their time to talk.

Of course the rule will not apply to anyone having a paper that is up for discussion. Are there any comments? If not, I will put the motion. All those in favor of the adoption of the report as submitted by the committee will signify it by saying "Aye;" contrary, "No." The motion is carried.

Now, Mr. Chase, if you will give me the order of procedure, I wish to make a general statement. A number of the gentlemen, city officials and others, have spoken to me in a confidential way with reference to the instructions of the Census Bureau, and the desire for something that will be of a little more value to them in the work of a uniform classification of accounts—that will bring their reports

into harmony with those of others. They confess, what anyone familiar with the subject, in the Census Bureau or elsewhere, knows to be true, that there is some difficulty in complying with the instructions of the Census Bureau. The reason is that we frame our instructions with a view to covering the institutions of forty states and also of the territories, while anyone who is working in a city has to do but one, and thus there is much material which we have to give our Census clerks which is of absolutely no use. I know it must be something of a perplexity and not a guide, but I will explain what I stated in part yesterday. In the first place, we were forced to make this study of our rules and our instructions for all. We have mastered the larger amount of these questions for individual cities and states, and we expect that this conference will throw some little light along this line. For 1905 we expect to prepare new instructions and a new schedule. The schedule will be simplified some little, but it must go along the lines of uniformity. The scheme that we are working on is to give a little book of instructions, not to exceed one-fourth and possibly not to exceed one-sixth of the present one in size, all expressed in simple, general terms. We expect to do this, and in addition thereto we expect, for the benefit of our clerks, to give a supplemental typewritten sheet dealing with the laws of a particular state. We confess we could not see our way out at the beginning, but we shall have it prepared in such a way that our instructions will serve as a simple guide to assist the city official in every way. We feel that there will be light, not only on the Census work, but on the whole movement. I mention this because I find that there are quite a number among those present who are wishing and saying that there might be a little more simplicity. They seem to see the desirability for the reform, but they do not have the simple manual to help them in all things.

Mr. Tracy. Mr. Chairman and gentlemen, the bureau of inspection and supervision of public offices of Ohio has been engaged since the previous meeting called by the United States Census Bureau in November, 1903, in perfecting the system of accounting in the various county offices of the state and in prosecuting investigations of county affairs, particularly as to the compensation by fees of county officials. The aggregate amount of the findings in such investigations approximates $600,000. The labor of applying the indefinite fee laws to the varied conditions existing in such offices proved even more difficult than that of formulating and installing uniform municipal accounts and reports. Now, that the inspection of the eighty-eight counties of the state has been concluded, our attention will be directed during the next few months to the introduction of departmental and general ledger accounts in the city offices.

The first work of the department upon its organization in 1903 was the formulation of schedules for uniform municipal reporting. To enable the auditing departments of the seventy-one cities of the state to render promptly, and with as little additional labor as possible, accurate and trustworthy information in the detail desired for our use in compiling the comparative statistics required under the Ohio uniform accounting law, it was found necessary to install a system of accounting that would record the classifications of the schedules from day to day, and not defer their compilation until the close of the fiscal year, as was the common practice in most city auditing departments throughout the state. The principal feature of the system prescribed by the Bureau, for the purpose of securing information for the revenue and expense schedules, is that the classification is to be determined and the proper entry made in the appropriation account (the classification of which account exactly corresponds with the classification of the schedules) at the time the city auditor issues his warrant upon the city treasury.

If the auditor is in doubt as to which account is affected by the claim presented for payment, or as to the proper classification, he confers immediately with the departmental officer authorizing the expenditure while the facts are still fresh in the minds of all parties concerned in the transaction. This facilitates reaching a proper conclusion and consistent treatment of the numerous matters of detail arising in the keeping of municipal accounts. The city auditor who has faithfully and accurately followed the system of accounting prescribed, will be able at the close of the fiscal year to render the report as to revenue and expense by merely entering the columnar totals of his accounts under the proper heads of our schedule of final detail, from which it is readily carried forward to the condensed schedules, and thus our department will have the necessary information from which to compile the comparative statistics within ten days after the close of the fiscal year.

But it is not so with the B schedules, designed for the purpose of giving to the public some conception of the assets and liabilities of the corporation. At the time of the organization of our department not a single city in the state had in use a general ledger of any description whatsoever, nor were there any accounts kept that would disclose the revenues due to the municipality or the liabilities against it. The special assessment accounts in most of the cities were in a very chaotic condition. Such assessments were collected in part by various city officials and employees and in part in the office of the county treasurer. The latter collections were reported to the city officials by the county auditor semiannually and in one lump sum, without informing the city officials of the several amounts legally due on each separate special assessment fund, as is required

by law. In consequence of this negligent manner of making collections and the readiness of the city council to make rebates of assessments, at frequent intervals it becomes necessary to issue refunding bonds to redeem the special assessment bonds due, said refunding bonds to be cared for out of the general sinking fund of the city. Again, at stated periods, a bond issue would be necessary to redeem temporary loans, made wholly without authority of law for the purpose of paying the obligations of the city for running expense. The department, acting within its supervisory authority, has met with hearty cooperation of the city officials, and for the fiscal year 1905 it will be shown by our schedules that every city of the state has confined its expenditures for operation and maintenance to the legitimate revenues of the current year.

Mr. CHAPMAN. I think I can follow up Mr. Tracy with a paper which I have prepared, but I would like to speak somewhat on what we call Schedule A and Schedule B. The first division of this subject, that relating to the A schedule, is a matter that I think can be discussed in a way at this session before we adjourn. I have prepared a few remarks on the subject of some definitions of municipal accounts which are in line with the present article. The B schedule treats of assets and liabilities, whether they are regarded as a balance sheet or not. The second step is one which was discussed at the previous conference, and concerning which there are many vital points, which I think will be hardly more than touched upon in the remaining time of this session.

The CHAIRMAN. The question suggested by the secretary is whether this refers directly to these schedules of Ohio, or whether it had better come at a later time in connection with the balance sheet proper.

Mr. CHAPMAN. It is rather foreign to the balance sheet. It has actually nothing to do with those assets or liabilities, but relates entirely to the governing definitions which should control the classification and reporting of those accounts which relate to the revenue and expenses of the city, so that it is in direct line with the matter which has been offered. It is a comparison or the exposition of certain principles.

The CHAIRMAN. That is all right. I will accept it. I have accepted this paper of Mr. Chapman's, which is a very interesting one and one that has attracted the attention of many, as Item No. 2.

(Mr. Chapman's paper follows.)

GOVERNING DISTINCTIONS IN MUNICIPAL ACCOUNTS, WITH SPECIAL REFERENCE TO THEIR CLASSIFICATION AS REFLECTED ON THE BOOKS OF THE COMPTROLLER OF THE CITY OF NEW YORK.

The first idea which instinctively dominates the act of classifying accounts is the recognition of opposites with respect to a governing consideration, and the first distinction to be apprehended is accordingly dual, or as between the two extremes of a significant point of view.

After thus establishing a primary differentiation each of the factors is in turn subdivided into its primary components, constituting a secondary differentiation, and so on by succeeding developments, retaining, however, the duplex scheme of analysis so far as the principle advantageously obtains, before breaking up into the final and multiplex analysis which marks the point at which diametric distinctions disappear and the individuality of each account or minor group constitutes it a class by itself.

In the annual report of the comptroller of the city of New York the first broad distinction to be observed is reflected in Table II (page 2), showing separately the total volume of transactions of the sinking fund and of the city treasury, respectively, the sinking fund being restricted to the specific purpose of redeeming the city debt by such provision, while the city treasury is applicable to all other purposes, including redemption by direct taxation or through reimbursements by local assessments. This distinction both of title and purpose is emphasized in the city's procedure and on the comptroller's books by the separate organization and administration of each of said grand divisions of the city exchequer.

Following in Tables III and IV (pages 3 and 4) the transactions of the sinking fund are again divided with respect, first, to receipts and payments and, second, to investments acquired and disposed of, and coincidently the action of both the cash and securities is analyzed and expressed according to the several elements and operations involved.

Coming now to the city treasury, Table V (page 5), which bears more directly on our subject, it will be seen that a primary distinction again claims first consideration, namely, as between (*a*) transactions predicated upon taxes and appropriations, and (*b*) transactions not so predicated. To be more specific, the first (*a*) relates to the moneys expended from the several appropriations made in the annual budget in accordance with which the annual tax levy is determined, and the second (*b*) relates to expenditures out of funds provided by issue of bonds, levies of local assessments, water rents, or from receipts of the numerous and varied revenues of the city not pledged to the sinking fund. The funds raised by annual tax are in the main provided to meet the general running expenses of the city government, including state tax, current interest, and redemption of debt, either directly or by sinking fund installments accrued; while the funds raised by bonds, assessments, water rents, and miscellaneous revenues are in the main provided or used to meet the outlay incident to public works, improvements, maintenance, and such operations as are financed by related revenues or emergency expenses ordered by law or resolution.

This distinction permeates every part of the city's accounts, and two kinds of warrants are registered for payment out of the city treasury, namely, "A" warrants, chargeable against "appropriation accounts" or budget credits, and "B" warrants, chargeable against "special and trust accounts," which latter title covers all city treasury accounts (other than appropriation) against which warrants are charged or to which any revenues or receipts, other than what relate to appropriation, are credited.

Of the expenditures made by "A" warrants, the state tax and the interest on and redemption of the city debt, because of their radical character, are expressed separately, while all other expenses, classified on the schedules of appropriation accounts under the titles of departments and bureaus, and the subtitles of divisions and purposes, are broadly regarded under the comprehensive designation of "expenses of the city government."

Of the expenditures made by "B" warrants, the refunds of imposts and fees and payments on account of the interest and principal of the city debt are, for the reason just stated, given separate expression; while all other expenditure covering construction, maintenance, operation, administration of trust funds, and every conceivable purpose, indicated under the elaborate classification of "special and trust accounts," is broadly regarded under the comprehensive designation of "outlay for public undertakings."

All transfers of credit between "appropriation accounts" or between "special and trust accounts," or from accounts of the one kind to accounts of the other, are segregated from the aggregate charges and credits and stated apart from the income and outgo per se.

The method of handling the appropriation accounts is essentially simple. One controlling account in the general ledger registers the aggregate action of the multitude of specific

appropriation accounts which form the classified contents of the appropriation ledger, each succeeding calendar year giving rise to both a controlling account and ledger dealing exclusively with said year's appropriations, and the classification adopted follows the order of the annual budget, which in turn derives its form and specifications from the departmental estimates upon which the board of estimate and apportionment bases the sums allowed.

The method of handling the special and trust accounts is, alternatively, extremely complicated, and, with the exception of three controlling accounts (operated in the general ledger to treat collectively the numerous specific accounts peculiar to the respective boroughs of Brooklyn, Queens, and Richmond, as they severally were constituted prior to consolidation, and which specific accounts in liquidation form the contents of borough ledgers), all other special and trust accounts are each and all a separate general ledger account, and the variety of subjects therein registered, both with respect to character of receipts and object of payments, and articulation of accounts related, are so multifarious that prior to the adoption of the present plan of stating the annual report no comprehensive scheme of classifying these accounts was attempted.

The classification of "special and trust accounts," undertaken for the first time in the annual report for the year 1902, repeated in the report for 1903, here before us, and now in course of preparation for the year 1904, forms the subject of "statement 8," the preceding summary of which appears on page 47, and the foregoing remarks have been merely preliminary to the primary purpose of this paper, which is to elucidate the substance, form, and purpose of said statement 8.

The structure of this statement is based upon the expedient of employing, simultaneously, both the process of analysis and of synthesis, and while the accounts are each and all reduced to their common or fundamental elements, by the division and distribution of controlling totals among a series of analytical columns, affording proof of accuracy by the equation of accounting opposites, the accounts are also classified according to the similarity of their individual character and purpose by the order in which they are written, grouping them first according to their more specific nature or narrowest classification, and bringing kindred groups together to express the more general or broad classification reflected in the grand summary. By this means the two processes react, one upon the other; the elements and the extent thereof, which are chiefly involved in each class of accounts, as well as the classes which contribute and the volume of their contribution to the activity of each element, are shown severally and collectively. For instance, the element "assessments" is seen to relate in the main to the broad classification "construction," and in a further analysis principally to construction of streets and sewers. The element "water rents" relates solely to the class "operation," the element "receipts subject to refund" to the class "trust funds," while the element "bonds issued" plays into every class of accounts operated.

The statement is here presented in two parts: Part I, Receipts and ledger accounts, and Part II, Payments and warrants. Each part displays the same schedules of classified accounts, but differs in the two analyses of elementary facts peculiar to itself, which, although related, nevertheless exhibits separate and distinct equations.

Passing over, for the time being, the synthetic feature of the statement governing the order and classification of the accounts under their ledger titles, which is largely a matter of selection and expression, and considering first the analytical feature comprehended by the captions and equations of the columns distinguishing the several fundamental elements, we will observe that there is practically no latitude in determining what shall be considered as fundamental elements; but, on the contrary, they constitute distinctions which we are bound to recognize if we would truthfully report the facts. In the first place, the transfers of credit, whether received into or paid from the accounts in question, are purely inter se transactions, and accordingly constitute the only like element in the first equation of both parts of the statement under the main caption "transfers by warrant" and subcaption of "appropriation accounts," "special and trust accounts," and "sinking funds," severally indicating from or to which kind of accounts the stated credits were derived or applied, respectively.

Apart from the inter se transactions, the characteristic elements of the receipts and payments are found to consist of the following:

Part I. Receipts comprehending collections of (*a*) assessments, (*b*) water rents, (*c*) items subject to refund, (*d*) par value of bonds issued, and (*f*) miscellaneous revenue, the latter comprising the innumerable details of licenses, rents, fines, fees, penalties, permits, sales, interest, and what not, fully analyzed in "statement 5," but which it is impracticable to regard individually in any general statement without at once destroying its broader significance.

Part II. Payments, comprehending (*a*) refunds of taxes, assessments, water rents, excise, bail, interest, etc.—in short, all money paid back to the parties from whom it was originally received; (*b*) redemption of the city debt; (*c*) interest on the city debt; and (*d*) all other outlay, which is designated, as hereinbefore stated, by the broad term "outlay for public undertakings."

The secondary equations or series of analytical columns treat, respectively, in Part I, with the charges, credits, and balances of the ledger accounts, and in Part II with the warrants drawn, canceled, paid, and outstanding, the debit and credit elements cross casting to a center or balancing total. The ledger summary (Part I) establishes the debit and credit balances at the beginning and end of the year under review, the interim charges divided as between warrants registered and general items, and the interim credits divided as between cash receipts and general items, the latter including also warrants canceled as void after registration. It is here to be noted that the cash receipts, forming an item on the credit side of the ledger summary, or second equation, are the same as in the total or controlling column of the analysis of receipts, forming the first equation of the same part.

The summary of warrants (Part II) establishes the warrants outstanding or unpaid at the beginning and end of the year under review, the warrants drawn during the year, the warrants canceled, and the warrants paid by the city chamberlain during the year. In this instance it is to be noted that the warrants paid and forming an item on the credit side of the warrant action, or second equation, correspond in amount to the total or controlling column of the analysis of payments, forming the first equation of the same part; while the warrants registered as stated in the ledger summary (Part I) are the same in amount as the warrants drawn as stated in the summary of warrants (Part II).

Returning now to the classification of the special and trust accounts, they are finally reduced to seven general heads, namely, (1) construction, (2) equipment, (3) maintenance and repairs, (4) operation, (5) trust accounts, (6) claims and judgments, and (7) miscellaneous.

All excepting the first, i. e., construction, represent schedules of ledger accounts, whereas construction is reached in the procedure by summarizing preceding summaries reflecting two prior developments, and retracing our process we find that schedule 1 (construction) is the combination of seven construction schedules, J to P, viz, of (J) buildings, (K) bridges, (L) streets, (M) sewers, (N) waterworks, (O) parks, and (P) sundries. Of these again, all but the first, i. e., buildings, are schedules of ledger accounts not further classified; whereas Schedule J, construction of buildings, consists of 15 groups of accounts showing separately and respectively the construction of (1) schools, (2) museums, (3) libraries, (4) monuments (5) baths, (6) hospitals, (7) charity, (8) correction, (9) markets, (10) armories, (11) fire engine houses, (12) halls and courts, (13) police stations, (14) docks, (15) rapid transit (subway stations and terminals).

In the "construction of buildings" is included the acquisition of sites, as well as the erection of buildings thereon.

In "equipment" are included fitting up and furnishing public buildings, fire alarm and telegraph systems, fire engines and boats, street signs, horses and trucks, and tools for street cleaning and other departments, indexing records, and kindred items.

In "maintenance and repairs" are included painting, repairing, and remodeling public buildings and other structures, restoring and repaving streets, repairing sewers and water pipes, dredging, and, in short, all outlay looking to continued efficiency of property or works already possessed or in use.

In "operation" are included the expense of special boards and commissions, the conduct of waterworks, and various extraordinary outlays by the departments of education, health, fire, police, etc., either financed by related revenues or by the issue of revenue bonds. The revenue bond funds for increase of salaries, for support of night schools, for expenses of conducting criminal proceedings, for the removal of snow and ice, are fair samples of the latter class.

In "trust accounts" are included such items as police pension fund, fire department relief fund, public school teachers' retirement fund, intestate estates, etc., all being funds held and administered by the city in the interest of associations and individuals in whom are vested the titles or rights to said moneys.

Claims and judgments require little explanation; such accounts as revenue bond fund for claims, Long Island City judgments, payment of claims of volunteer firemen of Westchester county, and similar accounts arising from compromise or the issue of legal actions against the city, are classified under this head.

"Miscellaneous" comprises a large variety of accounts which, although yielding to analysis, defy more specific classification. They relate principally to receipts of interest, fees, and other miscellaneous revenues, receipts subject to refund, and proceeds of bonds issued in anticipation of the collection of taxes, and to payments of refunds, interest and principal of the city debt, and other exceptional and dissimilar items which can not consistently be classified otherwise.

Having thus established controlling figures for all the "special and trust accounts" collectively, it becomes merely a matter of introducing the remaining general ledger accounts in order to complete the circle of action and demonstrate the equilibrium of the general ledger, by producing a trial balance as at the beginning and as at the end of the calendar year.

These remaining accounts constitute three main groups comprising Schedules X, Y, and Z (page 50), termed, respectively, controlling accounts, fiduciary accounts, and complementary accounts, which are appended to the summary of ledger accounts, Part I, and conjointly therewith produce the opening and closing trial balances marked (a) (a), and (b) (b), respectively.

The controlling accounts, Schedule X, thus bring into the equation the aggregate action of the appropriation ledger, the warrant drawn accounts "A" and "B," the receipts and application of general fund revenues, and the collections of general tax.

The fiduciary accounts, Schedule Y, in like manner introduce the cash or city chamberlain's accounts, the collector of assessments and arrears, and the receiver of taxes; and lastly, the complementary accounts, Schedule Z (although comprising related groups displaying equal aggregate debits and credits, which could therefore be either included or excluded from the equation without disturbing the balance of the accounts), complete the full exhibit by including therein the aggregate action of the sinking funds, the principal of the city debt, special accounts of the comptroller and chamberlain, paymaster, and collector of city revenue, with related accounts operated as auxiliary analysis of moneys in escrow or in transit between the primary accounts wherein the transactions ultimately rest.

While the classification of the complicated aggregation of accounts included under the term "special and trust," numbering several thousand distinct ledger accounts, is reflected only in this statement 8, the analysis thereof, as effected by the columns employed, will be found to correspond with the significant generalities reflected on Table v (page 5) dealing with the city treasury, whereon against the title "special and trust accounts," on the payment side, direct reference is made to statement 8, and on the receipt side reference is made to separate specific statements, which, although dealing more minutely with the receipts, reflect the same elements as those developed in the analysis herein described.

While the principle here set forth recognizes only the distinction as between "A" and "B" warrants, it appears that one special and trust account, entitled "additional water fund," and forming one of the water construction accounts, by reason of the magnitude of the

payments made thereunder, has had allotted exclusively thereto a separate warrant register and a separate series of warrants, which are known as "C" warrants, and for that reason both Table v and statement 8 are seen to read "B" and "C" warrants instead of simply "B" warrants. This is merely an incident of detail, and in no way need confuse the principle here laid down, which is that the distinction as between the sinking funds and the city treasury, and as between appropriation accounts and special and trust accounts as hereinbefore described, and as between analysis according to elements and classification according to subjects, is of too vital importance in accounting and reporting municipal transactions for them to give way to any system of accounts or scheme of reports that will obliterate their significance or cause them to disappear from the expression of results.

The CHAIRMAN. There was a request from Comptroller Betz, of St. Paul, to present some of the papers of St. Paul when we were through with the discussion of the Ohio schedules; but I think that this would be an opportune time for Mr. Betz to read his paper, and then take up the discussion of the Ohio schedules when he has finished.

Mr. BETZ. I don't want to trespass upon the time now at all. I have no paper prepared. We have a few of our schedules here, but probably it will be of more interest to the gentlemen present to go on with the discussion of the Ohio schedules, although I should be very glad to talk on this subject if it is desired.

The CHAIRMAN. You might show the gentlemen all the schedules with reference to this.

Mr. BETZ. As long as it is your pleasure, I will give a brief description of the way St. Paul is governed by a home charter. The city of St. Paul is governed by what we term "a home-rule charter." This charter was adopted by the votes of its citizens under an enabling act passed by the legislature in 1899. The government of the city under this charter is managed by various boards, such as police, fire, park, etc. The comptroller is the head of the financial department and all expenditures of whatever nature must pass through this department. In making up the budget of the city, the comptroller makes the estimate personally and lays the same before the conference committee. After the conference committee has either adopted his figures or changed them, it is submitted to the council and there finally adopted. After deducting from this budget all receipts from other sources than taxation, the balance is placed in the tax levy. In the annual budget the various funds set apart for most of the departments are limited by our charter to so many dollars and cents, and the expenses of any department can not exceed that limit. The common council does not have the power to transfer moneys from one fund to another. The taxes are collected by our county treasurer and by him turned over to the city. The taxes in St. Paul are collected a year after they are levied, and in order for the city to be upon a cash basis the charter permits the tax levy to be anticipated by the sale of interest bearing certificates in an amount not exceeding 80 per cent of the tax levy. When these certificates

are sold, each department is credited upon the books of the comptroller with 80 per cent of the budget allowance. But no moneys received from the county treasurer in any one year can be used for any other purpose than the payments of these tax levy certificates until they are all paid up. The balance that comes into the treasury, after the satisfaction of the tax levy certificates, is apportioned to the various department funds.

All payments made by our city are made by city orders. These orders are made up by the city clerk from claim sheets prepared by the city comptroller. These claim sheets represent audited resolutions that have been passed by the common council. After the city clerk has prepared and signed the orders, they are transmitted to the mayor for his signature, and then brought to the comptroller, where they are rechecked by the claim sheets and are countersigned by him. This order is then given out to the payee, who takes it to the city treasurer, and the city treasurer stamps the name of the bank that he wishes to pay this order and signs it. In this way we have four signatures on every warrant that is paid out. The city comptroller keeps a regular set of double-entry books—makes a trial balance once a month—and in addition makes out a daily balance sheet, showing in the first column the amount to the credit of each fund on the previous day; in the next column the amount that has been paid into the treasury to the credit of such fund; in the third column the payments that have been made on account of such fund; in the fourth column the credit balance left to that fund; and in the fifth column the amount of warrants that have been charged to such fund but are still outstanding and not paid. This balance sheet is transmitted to the treasurer, who is required to check it over, report errors, if any, and if found correct, he must sign it and place the same on file. At the end of the year these sheets are bound into one volume and form part of the permanent records of the office.

There are a great many other things which I should like to discuss in connection with the system adopted by the city of St. Paul, and which is considered one of the best in the country; but the time is too short to-day.

Mr. CHASE. May I ask a question? Is that really a trial balance of your appropriation account?

Mr. BETZ. No; it is a statement of daily balances.

Mr. CHASE. Are any of your accounts ever overdrawn?

Mr. BETZ. Only in a few instances.

Mr. CHASE. I would like to call Mr. Betz's attention to a part of the discussion regarding the terms that are to be used in designating the various schedules to be adopted.

Mr. BETZ. Instead of a balance sheet, this might be termed a statement of daily balances.

Mr. TRACY. Under the law of our state, municipal plants operated by a city are managed by a board of public service, which has the authority to fix the charges for services rendered to private consumers and is required under the law to furnish the water supply for fire department purposes, and to the public schools, hospitals, etc., free of charge. The rates fixed against private consumers are extended in the large cities but not in the small cities, but the law provides that if the charges are not sufficient to meet the expenses of operation, the council shall have authority to appropriate a sum of money to meet this, payable from the general property tax. You can not tax the consumer of water for the general purposes of the city. Interest charges are required to be made by law by the sinking fund trustee from the general levy, and very few there are; but some plants, waterworks plants, and a very few electric light plants of our cities have been able to set aside a sum of money from their revenue to meet the interest charges, and the expense therefor is met by the sinking fund trustee. When the Census Bureau gets out the statistics relating to the operation of gas and electric light plants, I am wondering how they will treat the city of Columbus. Our plants pay for bonds, interest charges, and operating expenses. In addition to that, they must provide a 5 per cent cash fund, which is deposited in the city treasury and which can only be used for the maintenance of the plant. Now we run up against it in Ohio—the electric light plant. We know we are losing money. How are we to treat this statistical report, as compared with Columbus, which does not pay its interest? It does not pretend to meet its bonds, and yet is furnishing water and gas at a figure which apparently insures a loss.

The CHAIRMAN. I think we have just time to reach the White House at the appointed time.

Mr. MACINNES. Then I move we adjourn.

(Adjournment taken until 2 p. m.)

FOURTH SESSION, WEDNESDAY AFTERNOON, FEBRUARY 14.

The conference was called to order at 2.15 p. m. by the chairman.

The CHAIRMAN. The gentlemen will please come forward and be seated. That we may thoroughly understand the programme for the afternoon I will ask the secretary to read it.

(The programme was read by Doctor Hartwell.)

The CHAIRMAN. Discussion of the general subject will be opened by Mr. Baker, of the Engineering News.

Mr. BAKER. Mr. Chairman and gentlemen, the subject set down for this afternoon is really divided into two heads. The accounts of public service industries should show the cost of construction and operation, and also the relative value of the services. With the

strictly accounting side of the subject I shall not attempt to deal. I shall confine my remarks, as far as possible, to the means of determining the relative value of the services rendered under public and under private ownership. The first essential will be, as indicated in the first part of the subject consisting of accounting, to show clearly the cost of construction, on the one hand, and the cost of operation, on the other. That is an absolute essential to the comparability of services rendered by a private party and those rendered by a municipality. In order to make that comparison it is necessary to take a great many things into account; many things to which heretofore municipalities have given no attention whatever in their accounting systems, owing largely to the fact that as a rule, in the United States, they put their hands into the general municipal treasury to make up any deficit that may arise in the operation of a waterworks or lighting plant. A private company, of course, has recourse to no such doubtful method as this, and must have its charges under services sufficiently high to include the interest on bonds, with some provision eventually for the retirement of capital or an accounting of capital, insurance, taxes, and a variety of other things which I will not enumerate, as well as operating expenses.

Now, if we are going to state the municipal side of the question, and the relative advantages of the one over the other plan, it becomes essential that a municipality should parallel the accounts of private companies. We may modify them to suit the exigencies of the case, but all these various items must be taken into account in order to compare public and private ownership. The topic speaks of comparing the value of the services rendered. I take it that in the last analysis that means the cost of the service, or possibly the profit derived from it. It seems to be foreign to American ideas of municipal government, as a rule, to attempt to make a profit on any one of its public service industries; that is, systematically to attempt to make a profit. Now, as a matter of fact, our system of municipal financiering and our tendency is to get money where we can get it. It does happen often that a municipality with a waterworks plant, for instance, finds that it can earn money in that way, by making a profit on services. It puts the revenue from the waterworks plant into a general fund, and distributes it, so far as waterworks are concerned, over a variety of other accounts. They are lost in the general treasury fund, and in that way taxation is reduced. That is done, as a rule, in a haphazard sort of way. It is a matter of accident rather than design, because there is scarcely a municipality in the country to-day that really knows whether or not its waterworks plant or lighting plant is paying its own expenses. Most of the statements we see on the subject are misleading. They show merely the difference between gross income and operating expenses, leaving out of account the

interest on the outstanding indebtedness. Even if the interest on outstanding indebtedness is taken into account, no account is taken of depreciation, much less of interest charged on the whole investment. Coming back now to what we had in mind—the comparability of the municipal and the privately owned plant—we must, if we are going to compare the two, take into account, for the municipally owned plant, the interest on the total investment. A private company has to take that interest into account. It must pay interest on bonds, and it must pay a dividend if it can. If we are going to state comparably the relative advantages of municipal and private ownership, we must do the same thing as for a private company, in respect to charges. We shall never be able to meet the arguments by the advocates of private ownership until we have come into line in this particular. We have, then, from the point of view in which I propose to consider this subject, a desire to compare the cost of services under two plans of ownership, because, after all, we are discussing the municipal ownership question. While there are many correlative and subsidiary things that affect you and me as taxpayers, or as patrons of a private company supplying gas or water, what we want to know is what we are going to pay for services.

We have, first of all, in attempting to get at this, the gross cost of the services, regardless of the parties to whom service is rendered. By parties to whom the service is rendered, I mean whether the service is rendered to private consumers or the municipality itself, for some franchise of the Government. We will take the case of a public waterworks plant, or a private waterworks plant: There we have the cost of the water that is supplied for private consumers in houses, office buildings, and for manufacturing purposes, on the one hand; and on the other hand, the cost of water that is supplied, or more properly—because we must take capital into account—the expense or cost of the works and the operating expenses that are necessitated by the public expense of street cleaning, flushing sewers, and for public buildings. We must carefully distinguish between these two classes of services rendered under either plan of ownership; and we must do it for a variety of reasons. We must do it not only to make our statistics comparable, but we must do it in justice to the private consumer of water, or light, or what not. It is absolutely unfair, unprincipled, and without justification to do as many cities are doing, namely, collect from the private consumer water rates, yet never to pay the cost of fire protection, street sprinkling, sewer flushing, water supplied to public schools, police stations, and so on, through all the municipal buildings. It is unjust and unfair. The services should be strictly and rigidly divided or distributed between the two; and this is especially necessary if we are to make comparisons.

To pursue the illustration of waterworks further, let us take the elements of expense of the waterworks plant. This is also a bar to the necessity of the carefully kept construction costs; charges on the construction cost. If any city were to attempt to-day to build a waterworks plant merely to supply the domestic consumption of water, the volume of water available from it would be very small; that is, small for an emergency demand, compared with what it would be where the fire protection is taken into account, and for a few hours at a time a large volume of water is used for the extinguishment of fire. This comes in more particularly in connection with the distribution system. The pipes that would supply water to houses and manufacturing plants would be much smaller if they were not called upon to supply a sufficient volume for the extinguishment of fires, and here you see we have a large item of capital expense which is due to that part of the public service which is designed for fire protection. Then added to this, although of least importance, is the increased cost of the service for other branches of the municipal works.

We must, then, carefully distinguish all of our accounting all the way through between the construction or capital charges and the maintenance and operating expenses. We have, of course, some very troublesome problems when we attempt to do this, particularly when we attempt to work out the capital charges. The question has been raised several times in connection with the discussion at previous sessions of this conference regarding interest on bonds paid off, depreciation, and related subjects. If not, it would be out of the question to attempt to present the arguments, pro and con, important as they are. The question can be raised, but I will not attempt to present any definite and classified (much less a dictatorial) statement as to just what method should be pursued; but this I think we can all agree upon: that in so far as there is an actual handling of money we can reasonably demand that there shall be a proper distribution of these items of the account, and that the expense for interest shall be charged up on the capital side of the account every time. As to whether or not there should be a sinking fund and a depreciation charge as well, there is a very great difference of opinion; but the sinking fund must be taken into account. It is absolutely essential. In order to make our figures at all comparable, we have to get at some unit prices, because it is useless to say that in one city the operation of the waterworks or electric light works costs so many thousand or hundred thousand dollars, and in another so much. We can not reasonably put it on a per capita basis, because most per capita statements do not mean anything at all. How little many of the per capita figures mean. By way of illustration, I want to point out a ridiculous line of figures that went into, not the last census, but

the Eleventh Census. In the bulletins that were issued in 1890 there was a per capita statement of the cost of street lighting in New York city. In some of the outlying districts of New York there were a few naphtha lamps, the total maintenance cost of which was a few hundred or a few thousand dollars, and they divided the whole population of the city of New York into maintenance cost of those two or three hundred naphtha lamps, and figured out to a mere fraction what they cost in New York city. We are getting away from that sort of thing now that we have a permanent Census Bureau. That is one of the things we have to be thankful for. We must have unit prices, but I can not go far enough into the thing to outline a scheme further than to illustrate what I mean by that: the price for a thousand gallons of water that is supplied, we will say, for domestic and municipal purposes; the cost per fire hydrant, we will say, for the water that is supplied; and the cost of the plant.

The cost of street lamps for public lighting is not an unimportant item, because there are street lamps and street lamps, and we must take into account the number of hours the lamps burn, and also the candlepower of the light that the lamp gives. These are, perhaps, sufficient to illustrate what I mean by unit prices, but we have then only a gross price. We have not anything to compare if one city is put against another city; because if we take waterworks—one city may locate alongside of a large lake or river which will provide an ample supply of water; another may have to go an immense distance, and of two cities that pump their water, one may have to pump it to an elevation of forty, fifty, or a hundred feet, and another, two or three hundred feet. The cost of coal in one municipality, say in the Pittsburg region, for steam making coal, may be one dollar per ton, while up in New England the same grade of coal may be three or four dollars a ton. Then we must correct our figures from the gross prices and net unit prices by taking into account the labor conditions in the several municipalities—the wages per hour that are paid for laborers and the number of hours they work. This is enough, perhaps, to show that most of the statistics, where there has been an attempt to compare in the past, are utterly and absolutely worthless for the purpose. The time has come when there is a demand for comparable statistics in attempting to deal with this municipal ownership question. Municipal ownership is going on apace, and demands for it are increasing. There must be something better in the way of statistics than we have had.

As many of you know, the National Civic Federation has just launched an extensive, wholesale international investigation of municipal ownership, and on Saturday last one member of their committee sailed for Europe. They began about six months ago to ransack for available statistics over there, and are going to make inquiries

on similar lines in this country. We shall see more and more the necessity for comparable statistics on this subject.

The CHAIRMAN. You all know that Mr. Baker is probably the first editor in the United States to become a student of this subject. He has for many years, in his paper, led the agitation for honest and comparable statistics, and no man has done more in the newspapers and in other ways to open the eyes of the people. It is with great pleasure that we see him here. He has called attention to the investigation of this problem, in this country and in Europe, that is being made by the National Civic Federation.

In this direction the preparation of a schedule for this work has been begun, not only for the National Civic Federation, but for the National Municipal League and for the Census work. Mr. Harvey S. Chase has prepared a schedule for the study of the members of the National Municipal League, and the question is how far this can be adapted to the work of the Census and for the work of the National Civic Federation. If the discussion upon this can lead to unity or agreement on a schedule, we shall feel that we shall work along the same lines. Mr. Chase will present a schedule on this subject that he had prepared tentatively and to provoke discussion.

(Mr. Chase's paper follows.)

MUNICIPAL INDUSTRIES AND PUBLIC SERVICE CORPORATIONS—UNIFORM SCHEDULES FOR STANDARD AND COMPARATIVE REPORTS.

In these days one has only to say "municipal ownership" in order to have at once an interested and combative audience. This question is an exceedingly important one and should have our most careful attention.

When we consider the appropriations for immense sums which are now hanging in the balance in very many municipalities, depending upon the voting power of the public whether such sums shall be expended or withheld, we must appreciate the necessity for some accurate and standard basis for such far-reaching decisions. Upon us, as municipal financial officers, public accountants, and students of economics, devolves the duty of providing such a basis for accurate and intelligent comparisons of the results under different forms of administration, so that the public mind may become informed and the possibility, at least, of intelligent action may be created.

In order to make this paper as brief as possible and at the same time effective, I will take it for granted that all of us are in favor of the principle, that annual reports of municipal industries—waterworks, gas works, electric works, and street railways—and the annual reports of public service corporations, which perform the same functions, should be published upon standard schedules and be uniform so far as is practicable.

The necessity for such standard and uniform schedules is apparent. No argument is needed. It is evident, also, that this necessity is rapidly becoming more and more imperative.

The National Civic Federation has appointed recently a commission of one hundred men, representing all shades of opinion, to investigate the broad question of municipal ownership. This commission, of which the writer is a member, has appointed a committee of twenty-one to supervise and carry on such investigations and to prepare preliminary reports. The committee of twenty-one has a steering committee of five, who have laid out an all-embracing programme for the work. The labor which must be performed in these investigations is tremendous, while the importance of the results, if impartially and accurately compiled, can scarcely be exaggerated.

The committee of five has prepared preliminary schedules for use in obtaining the financial data for waterworks, gas works, electric works, and street railways, both publicly owned and privately owned; also publicly owned and privately operated.

I desire to take these schedules as the basis for this paper and discuss them here, in the hope that suggestions be made which will improve the schedules and make them standard and uniform. Such schedules must be "practical," both from the private corporation point of view and from the public industry viewpoint. Without further introduction, therefore, I submit Schedule A, "Revenue and expense," or "Income and expenditure," as our British brothers designate the same idea. The schedule is designed as a form for a consolidated statement of the total income accrued and the total expense incurred for the fiscal year, irrespective of whether or not this "income" has yet been actually collected into cash, and whether or not this "expense" has yet been paid in cash.

(Mr. Chase presented at this point the schedule, which is printed (as amended) on page 115 of these minutes.)

I desire to call your attention to a number of important points.

First. It is evident that revenue from sales of product—water, gas, electricity, power etc.—should be separated from revenue from extraneous sources, such as from rents, or from investments and securities, etc. In the schedule these extraneous sources of revenue are set forth at the very end of the schedule and do not affect the financial results of the business, viewed solely as a gas undertaking, an electric undertaking, etc.

Second. It is evident that discounts, rebates, refunds, etc., should be handled as deductions from revenue, not added to "expense." True "earnings" being thus obtained, we will next consider "expense." There are three primary divisions of expense.

1. "Expense for manufacture," pertaining to gas, electricity, or power for street railways, this subdivision for water being called "expense for water supply and storage."

2. "Expense for distribution," which explains itself. Each of these two divisions is subdivided into "operation" and "maintenance;" "operation" covering strictly running expenses and "maintenance" covering repairs and supplies. These subdivisions are essential for this reason: That as this schedule is to apply both to public plants and to private plants the relative cost of "operation"—that is, actual running expense—should be evident, and likewise the relative amounts expended or laid aside for repairs, including supplies, should be in evidence.

Comparing the public enterprise with the private enterprise, the operation expense of the first plant may be heavier than the corresponding expense of the second plant, while the maintenance (repairs) expense of the first may be much less than that of the second. Important differences in administration would thus be shown by our schedule; whereas, if these items appeared only as a total in each plant, these totals might be approximately the same, and conclusions drawn therefrom might then be exceedingly misleading.

3. The third division of expense is "general expense," a designation which we all understand. The important point here is that "general expense" shall not include any of the items which are sure to differ very materially between public plants and private plants per se. That is to say, taxes and franchise payments are distinctively private plant charges; sinking fund provisions are commonly only public plant charges. Insurance differs very greatly; interest varies markedly; damages and extraordinary legal expenses apply differently; depreciation is usually inadequately handled, etc. Therefore we do not include any of these variables in "general expense." They follow later in the schedule.

The total of the three primary divisions of "expense" is then given. At this point comparisons of the results between public and private administrations can be made safely, as all the preceding elements are identical in character. This point is therefore a crucial one and should be emphasized strongly in the reports.

Variable items.—"Variable items" include all additional items which are correct charges against revenue before true "profits" can be established. These items represent actual facts, even though they may be omitted in the bookkeeping. Taxes are paid by private

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plants, but usually lost to the public treasury through public plants. They must be properly considered for true comparisons. Insurance, in its various phases, is a risk to be taken and estimated, or paid for.

Damages and legal expenses (extraordinary) differ greatly between public and private plants and are therefore set up separately here. Guaranty for losses on bad debts or other shrinkages of current assets is also variably handled. Depreciation of machinery and plant is complicated and difficult to allow for, and yet it goes on daily and hourly in every plant. It must be provided for, whether or no.

These "items" are true charges against revenue before profits—"net revenue"—can be determined.

Owing to different methods of providing capital for public plants and for private plants the returns upon (or repayments of) such capital must be carefully considered in the reports and disclosed in the schedules. Public capital is borrowed usually on bonds or notes and paid off through sinking funds. Payments into sinking funds for such a purpose are therefore distributions of profits just as much as dividends upon share capital in private plants are distributions of profits. Interest also is a payment for use of capital—borrowed capital, to be sure, but still capital. Payments of interest are therefore actually distributions of profits paid upon borrowed capital in place of dividends upon share capital.

In order to correctly compare distributions of profits in private plants with the same in public plants, we must consider the total of dividends, interest, and sums laid aside for franchise amortization in the former against the total of interest and sinking fund items similarly laid aside in the latter.

The next division of the schedule, "application of net revenue," is therefore of fundamental importance. All of the items included thereunder have no relation to "expense." They are merely distributions of profits. That this is true of dividends is universally accepted. That it is true of moneys laid aside for sinking funds is also evident after a moment's thought. To consider "interest" in the same category is perhaps difficult for the average fiscal officer, but it is apparent that this item represents the use of capital—in this case borrowed money.

It would be impossible to compare net revenue of public and private plants if interest were put above the line while dividends were left below the line. Take for instance a private corporation with $500,000 share capital and no bonds, and a municipal industry with $500,000 of 4 per cent bonds outstanding. If interest were put above the line, the public plant would be charged $20,000 as an expense item, whereas the private plant would have no such charge above the line. This distinction is essential and must be carefully observed for all comparative purposes.

The remainder of the schedule explains itself, and I need say only that each of the items given in this consolidated statement should be set forth in detail on subsidiary supporting schedules which should follow, in the main, the uniform distribution of the accounts provided in the standard schedules of the American Water Works Association, the American Gas Light Association, the National Electric Light Association, and the Association of Street Railway Accountants.

It will be found feasible and practicable to draw off the items needed for the consolidated statement, herewith submitted, directly from the standard detailed schedules of these four national associations. The purpose of the writer in presenting the consolidated statement was to have it carefully considered, amended, and adopted at this meeting, and thereafter to have it acted upon by the American Association of Public Accountants and by the National Municipal League. It is proposed, then, to submit the final forms to the investigating committee of twenty-one of the National Civic Federation with the request that these forms be utilized as the basis of the financial reports which will be made hereafter by that committee upon public and private enterprises in this country and abroad.

Schedules thus standardized and accepted will thereupon become the foundation upon which the accumulation of data can be made safely for years to come. Results predicated

upon such data can then be accepted and acted upon intelligently, in the light of local conditions, in any community which may consider the purchase or establishment of municipal enterprises of this nature.

The CHAIRMAN. Opportunities for questions will now be offered to anyone who desires to ask them.

Mr. MACINNES. Mr. Chairman, I appreciate very much the remarks of Mr. Chase, coming so appropriately after those of Mr. Baker. I wish to point to one or two things on this schedule wherein I seem to differ from Mr. Chase in his statement of expense—based on the language of this schedule. Would it apply equally to the operation of a public enterprise and that of a private corporation? It particularly bore on the distribution made on charges on account of capital, claiming that the payment of dividends in the case of a private corporation was practically similar to the provision for sinking fund requirements on the part of a public enterprise.

Mr. CHASE. That being both distributions and profits.

Mr. MACINNES. In the first place, the payment of dividends by private corporations is a division of a certain part of its profits; and in the second place, it is the setting aside of the profits. To my mind they bear the same relation as does the payment of rent for premises that you occupy to the installment payments for that property. People will always go on paying rent; so to my mind there is here a special difficulty, and the two can not be looked upon as being synonymous. Furthermore, in considering the question of what should properly constitute the expense of an enterprise conducted by the people for themselves, such as waterworks, etc., we should bear in mind that we have no right to inflict on the present generation a greater amount of expense than we should reasonably place there. If you are going to maintain your waterworks throughout in a state of efficiency, and you are going to set aside out of the revenue derived therefrom every year so and so much for sinking fund purposes, why should you also provide for depreciation? We are seeking to impose at the same time on the public enterprise a greater expense than you would impose upon the private corporation, and then seek to draw conclusions from that. Such conclusions would be favorable to the public enterprise. You seek to impose the interest charges on the public enterprises, whether that has been paid out of revenue or whether it has been borrowed in anticipation of revenue, because after all it all has to come out of revenue. If you are to charge interest on the cost when that cost has been already paid, then you must surely give credit in the public enterprise for the protection of public buildings of all kinds.

Mr. CHASE. Mr. MacInnes, if you will excuse me just a moment, I think I can prove to you that we are on identical lines. For instance, the statement you have made is identical with the schedule.

Mr. MacInnes. Well, we don't quite agree, because I realize a distinction with a great difference.

The Chairman. I would mention the rule as adopted this morning. Will you extend the time for Mr. MacInnes?

Mr. MacInnes. Mr. Chairman, I beg your pardon; I did not know I was transgressing.

The Chairman. We have now fifteen minutes left for this general subject, and we want to have the whole time taken up. Well, Mr. Chase, I think if no one wants an extension, Mr. MacInnes should have the preference, unless some one else wants the time.

Mr. Chapman. I have only a suggestion to make. As I understand the charges—both revenue charges and charges on capital account—some would apply in the case of corporations and not to cities, and the object is to have the form available to meet that contingency, but the account starts with the title "revenue and expense," and it seems as if there had been some recantation on that. If revenue and expense is the title of the blank, the A and B should be revenue and expense; and if income and expense is the title of the blank, income and expense should be the title. In the first instance it takes the caption from the first title and expense from the end of the first title. Now, income and revenue have a slightly different meaning; they have restricted meanings. The word revenue is sometimes used not with respect to income. When we come down to the charges or capital account, I object to charges at all.

The Chairman. We have seven minutes more before the time for closing under the rule of the morning. We should be glad to hear short comments or statements.

Mr. Momsen. Mr. Chairman, I want to make a suggestion in this connection. Under the heading, "charges on account of revenue," appears the item, "taxes and franchise payments." There is a growing popular demand for information as to the amount contributed by public service corporations for the use of public streets and highways. This item includes the taxes which every corporation and every person has to pay in any given city, with franchise payments which are made for a specific purpose and for the specific privilege of using the public streets. For that reason I think that a separation of taxes and franchise payments would be very desirable and of value to the public at large.

Mr. Rex. Mr. Chairman, the discussion in relation to this schedule as prepared by Mr. Chase has been very interesting to me. It is something that we are taking up with considerable care, and, for the purpose of arriving at some definite conclusion in relation to this, I move that the chair appoint a committee of five to take into consideration this schedule.

Mr. Rives. I second the motion.

The CHAIRMAN. All those in favor of the motion will signify it by saying "Aye." I appoint Mr. MacInnes as chairman of that committee and Mr. Upham, Mr. Chapman, Mr. Rex, and Mr. Chase.

The time for the close of this discussion proper has come, and as there seems to be a little misunderstanding with reference to the rule adopted this morning, let me read the rule as it was adopted.

We will now listen to Doctor Cleveland's paper on "The Glossary of Terms," proposed by the committee of the National Municipal League.

(Doctor Cleveland's paper follows.)

THE NEED FOR UNIFORMITY IN NOMENCLATURE AND PHRASEOLOGY.

The keynote of this convention was sounded by Mr. North, by Doctor Hartwell, and by our chairman in their appeal for standardization. What we need is standardization of classification, standardization of nomenclature and phraseology, and standardization of reports. But standardization for what purpose? In order that we may have a common language for the communication of ideas, that we may each transmit to the other and take to himself the ideas which grow out of the situations presented in the cities and towns of the United States. The municipal problem is before us demanding scientific solution. To do this each must put himself on the same level as those interested in botanical or zoological research. They have scientifically determined titles to ideas, which represent to them certain and definite conclusions drawn from uniform classification of facts, and the classification of data is the result of work on the part of many investigators. This, Mr. Chairman, is what I understand you to mean by standardization.

Municipal graft and misgovernment have grown out of lack of intelligent control. From small beginnings the city has grown. In a village or town every citizen may be said to have cognizance of all the acts and doings of officers and employees. It was under such a régime of simple decentralized democracy that we conceived the notion that we did not need any system of accounts and reports. The town became larger; its revenues grew. An absentee or defaulting treasurer suddenly aroused citizen taxpayers to a realization that the public purse had not been properly safeguarded. This led to the introduction of a system of controlling cash accounts and treasury fidelity bonds as a means of protecting the municipality against fiscal infidelity. The town became a city; and instead of a town meeting, a council represented the relation of sovereign proprietorship in the municipality. No longer has the citizen knowledge of the doings of officer and agent; even the officers themselves have no immediate control, many details of business being intrusted to employees.

Although the treasury has been made safe against misappropriations, it is not immune to the insidious devices of a political boss or an organized gang operating through a servile assembly. Against this an audit is installed, and a comptroller elected to protect the people; but the comptroller can not execute; he can only scrutinize and pass for payment that which is regular and discard that which is irregular. The whole question of administration—economy and efficiency of service—is still untouched.

A municipality is a corporation created by law for the purpose of rendering public service. The coproprietors of this corporation are citizens. But citizens have no power to participate directly in its affairs. The corporation can act only through legally appointed servants. These corporate servants are of three kinds: (1) Direct representatives of the people—the council; (2) the officers who are elected or appointed to administer—to carry out instructions of the council and of the charter; (3) employees appointed by officers to attend to the minute details of the city's business. Intelligent administrative control, which looks toward economy and efficiency of service, therefore must be of three kinds: (1) The official control of the officers over the employees; (2) the representative control of the council over officers; and (3) the proprietary control of citizens over the council and the other selected agents.

Intelligent control of any kind must have for its foundation exact information as a basis for judgment, with respect to economy, efficiency, and fidelity of service. This exact information must be collected, classified, and summarized or coordinated around the various problems of administration, concerning which the citizen, the council, and the officer must think. In other words, the information must have reference to the several kinds or classes of public services to be rendered, and must be so arranged as to show the economy and the efficiency with which it is performed. And by reason of the fact that the city's business can only be effectively carried on by means of adequate funds and equipment, there must also be information which will show a strict account of assets and protect the municipality against the loss of its natural resources. To think intelligently about any problem of administration the city must employ a staff of bookkeepers, accountants, and statisticians to collect the data and arrange the financial and statistical facts in accounts and summaries to be laid before officers and representatives. Furthermore, the summary must be published to the citizen in such form that he may judge whether these public servants have fulfilled the purpose of their employment. The desire for such an arrangement of financial and statistical facts is the animus of the movement which gave rise to the National Municipal League, to the Civic Federation, to the League of American Municipalities, and to the branch of Census work which has been the occasion for this conference.

Nomenclature presumes classification, and classification should proceed from the administrative and citizen control which is sought to be established. Uniformity in classification and nomenclature must depend on uniformity in municipal functions. What are the functions and administrative problems common to municipalities? For the purpose of discussion these are set out as follows:

TABLE I.—*General classification of municipal expenses and income.*

Current expenses.	Current income.
I.—Expenses of general government.	I.—Revenues for general government.
1. Election and appointment of officers.	1. Taxes.
2. General administration.	2. Licenses.
3. Protection of life, health, and property.	3. Miscellaneous revenues.
4. Public charities and correction.	(*a*) Of general officers and offices.
5. Highways and sewers.	(*b*) For protection of life, health, and property.
	(*c*) For public charities and correction.
	(*d*) For public highways and sewers.
Total expenses of general government.	Total revenues of general government.
II.—Expenses of public education and recreation.	II.—Revenues for and income from public education and recreation.
1. For public schools.	1. For schools and from tuition.
2. For public libraries, art galleries, and museums.	2. Income from public libraries, art galleries, and museums.
3. For public recreation.	3. Income from parks, playgrounds, gymnasia, etc.
III.—Expenses of public industries and investments.	III.—Earnings and income from public industries and investments.
1. Waterworks.	1. Waterworks.
2. Gas works.	2. Gas works.
3. Electric light and power plants.	3. Electric light and power plants.
4. Street railways.	4. Street railways.
5. Subways and conduits.	5. Subways and conduits.
6. Other municipal industries.	6. Other municipal industries.
7. Municipal investments.	7. Municipal investments.
IV.—Other municipal expenses.	IV.—Other municipal income.

It will be noted that in general the classification given is similar to that used by the Census Bureau, the difference being that the subclasses "election and appointment of officers," "general administration," "protection of life, health, and property," and the "maintenance of highways and sewers" have been grouped under Caption I ("general government"). The other classes of income and expenses of operation are placed under Caption II ("public education and recreation") and Caption III ("public industries and investments"). This general classification is used for the following reasons: (1) That all those functions collected under the first class, denominated "general government," have

to do with the exercise of governing activities and are for the purposes of social control or public convenience. This is the body of activities for which the municipality was primarily organized. (2) The municipal functions which come under the second general class ("education and recreation") have to do with social betterment and are not necessary to governing control. (3) Those in the third class ("municipal industries and investments") have to do with public economies. Each of the general classes, therefore, have a logical basis and an institutional difference which make them the subject of distinct administrative consideration and separate statistical classification.

What is denominated "general government" comprises functions which it is necessary for a city to undertake as a means of protecting the urban community against disorder, disease, interference with trade, and conditions which would render city life unsafe or impossible. Whether education be public or private; whether the city provides art galleries, museums, or parks; whether it undertakes to own or operate public utilities—the general functions carried on, under the designation of "general government," must be maintained at any cost. These, therefore, are first to be considered in budgets and estimates of revenue necessities; these activities must be administered on. To follow the outline above referred to: (1) Elections and appointments of officers are a primary necessity, for without officers or agents no public business whatever could be transacted; (2) for the same reason, the general officers and offices must be provided for; (3) whenever the community becomes so large as not to be self regulatory, the police department, the fire department, the health department, must be maintained as a means of protecting life, health, and property; (4) public charities and corrections are essential to care for the impotent, the dependent, and the criminal classes; (5) the regulation and maintenance of highways and sewers are functions which the city in its corporate capacity alone may handle safely. Administratively and organically, therefore, these functions are in the nature of government; while being common to all municipalities, from a statistical point of view, these summaries and totals are more nearly on a comparable basis than any other class of municipal facts.

As respects the activities of the second general class ("public education and recreation") there is no uniformity. In some communities the schools are more largely private; in others, the public schools are conducted by separate and distinct corporations; in these, again, the school districts may not be coterminous with the territory of boundaries of the city. Another city may provide schooling for a large contiguous population, without requiring payments for tuition. With libraries, museums, and parks there is still greater variety, in practice, in organization, in expense, and in revenue provisions. In one city there may be none of these activities—no facilities for recreation or entertainment, for instance. The parks may be managed by a state board or a distinctly local organization; one city may have baths, gymnasia, playgrounds, race tracks, etc.; another may have an unimproved common or field that has been obtained by private bequest. Not only the fact that public education and recreation is a distinct class in kind, but also irregularity and lack of uniformity of function suggests the advisability of segregation from the first class above enumerated.

Concerning the third general class of data ("municipal industries and investments") there is no room for dispute, since all concede that they should be displayed separately in public reports and statistics; but the primary reason for the segregation of facts pertaining to public industries and investments is the same as that above urged, namely, that they present a distinct set of administrative and financial problems.

With respect to assets and liabilities, there are two general classes of relations to be administered on. The one has to do with the resources in hand, as a means of meeting current expenses, and the payment of current liabilities; the other has to do with the protection of permanent properties and equipment against loss and impairment. These facts suggest the administrative advantage of having two distinct classes of accounts, as a means of distinguishing what may be called current assets and liabilities from capital assets and liabilities. The same reasoning would require that both the officer and the

citizen should know what is the surplus or deficit in current assets, as distinct from the net capital of the community invested in permanent properties and equipment.

TABLE II.—*General classification of current assets and current liabilities of municipalities.*

Current assets.	Current liabilities.
1. Cash on hand (exclusive of capital and trust accounts). 2. Uncollected revenues receivable. 3. Current credit assets (receivable). 4. Judgments receivable. 5. Sinking funds applicable to debts due. 6. Current working assets.	1. Current revenue liabilities. 2. Current credit liabilities. 3. Current judgment liabilities. 4. Current funded obligations.
	Total current liabilities. Current reserves and surplus. (*a*) Current cash reserves. (*b*) Current revenue reserves. (*c*) Reserves for loss and cost of collecting current credit assets. (*d*) Reserves for loss and cost of collecting judgments receivable. Total current reserves. Available current surplus. (*a*) Net available current cash. (*b*) Net available current assets other than cash.
Total current assets. Current deficit.	

Assuming that this is true, there should also be a distinct accounting for capital funds as distinguished from current cash. There should be no commingling of "sinking funds," "endowment funds," "permanent improvement funds," "balances on hand from bond sales," etc.; otherwise the tendency would be either intentionally or unintentionally to apply capital funds to current uses, instead of providing adequately for current expenses and obligation out of current revenues. In the outline below the several administrative problems pertaining to assets and liabilities are suggested by way of classification.

TABLE III.—*General classification of capital assets and capital liabilities of municipalities.*

Permanent properties, equipment, and funds.	Liabilities incurred for permanent uses and invested reserves.
I.—Funds not applicable to current uses. 1. Sinking funds. 2. Endowment funds. 3. Permanent improvement funds. 4. Balances on hand from bond sales. 5. Other capital funds. Total capital funds. II.—Permanent properties and equipment. 1. For general government. (*a*) Sites and grounds. (*b*) Buildings and improvements. (*c*) Equipment. 2. For education and recreation. (*a*) Sites and grounds. (*b*) Buildings and improvements. (*c*) Equipment. 3. For municipal industries and investments. (*a*) Sites and grounds. (*b*) Buildings and improvements. (*c*) Equipment. (*d*) Municipal investments. Total permanent properties and equipment.	I.—Capital liabilities outstanding. 1. For general government. (*a*) Municipal buildings (city hall and general offices). (*b*) Municipal prisons, armories, and hospitals. (*c*) Public highways and sewers. (*d*) Etc., etc., etc. 2. For public education and recreation. (*a*) Public school buildings. (*b*) Public libraries and art museums. (*c*) Public parks and boulevards, playgrounds, and gymnasia. 3. Public industries. (*a*) Public waterworks. (*b*) Public gas works, etc., etc. 4. Other capital liabilities. Total capital liabilities. II.—Capital reserves and surplus. 1. Capital reserves. (*a*) Sinking fund reserves. (*b*) Other capital reserves. Total capital reserves. 2. Invested capital surplus. (*a*) Bonds canceled out of surplus. (*b*) Revenue appropriations for permanent improvements and investments less capital depreciation and loss. Net capital surplus.

Another class of assets and liabilities, as well as income and expense items, should be separately accounted for, namely, the trust estates placed in the hands of municipalities for specific uses.

Having such a general classification of administrative ideas in mind—having before us the several administrative problems concerning which we must think in establishing control over public enterprise—it has been the aim of the committee of the National Municipal League, of which your chairman and your secretary are members, to present such a nomenclature and terminology as will give common symbols of expression, and, with these, to present such definitions of the ideas thus symbolized as will furnish a common basis for discussion of questions concerning which each accounting officer in his own city, the Census Bureau in its work, the writer on public finance, and the public accountant have to deal.

Doctor CLEVELAND. Using this as a basis for discussion of nomenclature, Mr. Chairman, I do not intend to do more than call attention to the fact that in our report we have put this classification in the form of a tentative draft merely for the purpose of submission and criticism. Using this tentative basis of classification, we have in our report on nomenclature and terminology attempted to define these different administrative ideas, and to select terms which will serve as a common language for discussion. This, I hope, may be brought before you in a much better way than could be represented here by a reading of definitions formulated by the committee. I hope that, as soon as we may come to some agreement among several committees, we may send each of you a copy of the report, and that you may note on those copies your suggestions, or give us a memorandum by way of criticism.

There are some questions, however, that I wish to raise here, because there seem to be some unsettled points before us. Turning to the Census report, one of the terms that I would bring to your attention is the word "sanitation." It seems to me that the word "sanitation" is a term most commonly used with reference to subjects of interest to a health department, or to the physician in his work. What the Census Bureau has in mind is sewers and garbage removal. It has nothing to do with the disinfecting of old clothes or medical combat with microbes. It seems to me unfortunate to bring in a word, primarily appropriated by another department of science and municipal activity, to represent this class of expenditures. Not that the classification is not all right, but it seems to me that it is somewhat unfortunate to adopt a word that may lead to confusion.

Another suggestion with reference to Census work (and I would like to be corrected if I am wrong in the statement as to facts) is this: Should we include pensions in the statement of expenses of the administration of a department? Am I right, Mr. Chairman, in saying that they are included?

The CHAIRMAN. Yes, sir.

Doctor CLEVELAND. My reason for the objection is this: We want to get at the cost of operation. We may have pensioners galore on our pay list, but it does not tell us anything with reference to the operation of a department. They are out of service and it is therefore confusing when we bring in a pay roll that does not belong to a department and set this up as a part of the cost of operation. The head of the department is in no way to be held responsible for the pensioner. I would suggest, therefore, that pensions be left out of the administrative category of expenses when seeking to compare one department with another.

I will not refer further to the Census report at this time, because I hope to be indulged a little this evening along with Mr. MacInnes; but there is a matter before us which has to do with terminology, and which comes fairly within my field, as introduced by Mr. Chase in his outline of revenue and expenses of municipal industries. It seems to me that "administration" ought to go in as a specific classification under "expenses," as one of the main captions. We would then have (1) expenses of administration, (2) expenses of manufacturing, (3) expenses of distribution, and (4) other operating expenses. I suppose that is what Mr. Chase meant, to have "administration" in his general head "general expenses;" but it seems to me that we should have it specifically set out for purposes of comparison.

Mr. CHASE. That would certainly come in in a special schedule—general expenses of administration. I think it is important to have a single classification for administration; that is one of the things we want to look out for.

Doctor CLEVELAND. Looking upon the operation account as one which has to do with administrative activities, it occurs to me that we should take up there some of the items which Mr. Chase has excluded for the reason that they are part of the cost of operation—for example, repairs and replacements. A plant in one city is running without any repairs and another plant is being kept up. It is a part of the business of those responsible for running a plant to provide against its being worn out. If the one manager in the direct expenses of operation provides for repairs and replacements, and another does not, this should not be shown as a point in favor of the manager who does not allow his plant to become depreciated. Depreciation is the difference between the amount they should have spent and the amount they did spend in keeping a plant in repair. It is what they did not spend, but should have spent out of the current revenue, and therefore should be charged against it. If we are going to get down to earnings on a net basis, we should put a depreciation reserve in our operating expenses as a means

of getting a comparable net income; otherwise the man who is running his business the most poorly will come out with a larger net earning. If we are going to make provision for furnishing to the world comparative statistics and exact administrative expenditures, we want to have it known who are making provision for repairs and who are not.

The classification indicated in Mr. Chase's schedule as "guarantee" is the provision to be made for income uncollectible; in other words, the "guarantee" is for water rates uncollectible and meter rates and contracts with houses for power, etc. Now, are not these uncollectible items to be considered a deduction from income? Should not these go in as charges against revenue instead of being taken out of operating accounts? Should not the balance sheet item "reserve for bad debts" find its counter entry as a deduction from income in operation accounts?

Mr. CHASE. "Expenses," as we define it, is here divided into two parts: one, B, "expenses," and one, C, "charges on account of revenue." The net profits, therefore, is income less expenses for revenue charges. The one point is whether this definition shall be retained or whether another definition shall be selected.

Doctor CLEVELAND. I am very glad Mr. Chase raised the point here, because there seems a vital weakness in the statement from the point of view of comparable statistics. It is better to put that as a deduction from the income from operation instead of having it set up here as among the property charges.

Mr. MACINNES. It was the "guarantee" or reserve to provide for shrinkage in assets, for the shrinkage of current assets—that is to say, bad debts.

Doctor CLEVELAND. That is, if it is in the nature of bad revenue receivable, it is usually in the nature of claims against persons who have entered into contracts for gas or water to be supplied, and the amount has been taken into revenue. Being a bad account, it should be taken out at the end of the year to get a statement of net revenue earned.

Mr. CHAPMAN. In other words, you would mix up a speculative charge with an operating expense; you would include a fairy tale with a fact. The provision making the charges against revenue for guarantee against shrinkage of current assets, or, in other words, provision to meet probable bad debts, is entirely a speculative expedient, and therefore should not rank or be included among operating expenses per se.

Doctor CLEVELAND. Yes; it is a fact that your expenses were so much. The purpose is not to include a fairy tale in your expenses, but to take a fairy tale out of your statement of revenue earned.

Mr. MACINNES. It is purely an estimated amount to cover bad

debts and is not in the nature of an expense actually incurred, and therefore should not rank as an expense charge.

Doctor CLEVELAND. It should not be treated as an expense, but as a deduction from income. It is an estimated amount to cover bad debts, some of which may be for a period preceding, perhaps, and some for the period we are dealing with; but if each year a proper reserve were deducted for bad debts, the income statement would not be padded with bad assets.

Mr. CHAPMAN. Now, the first is predicated on transactions and the last is based on an estimate, and in this way you will tend to mix up transactions with estimates.

Doctor CLEVELAND. I will accept Mr. Chapman's criticism, providing that the outline is on a cash basis; that is, simply taking the net receipts or revenue that you collect and not what you earn during the year. But, on the other hand, if you are setting up an account as a railroad sets up the accrued amount of revenue, charging against such the expenses incurred, then it should be deducted from the income. If we are going to get on a cash basis, you can not make that comparison. Then you can come in and say we will have nothing but what you actually received, whether it be income for the year before or for the year after.

Mr. CHAPMAN. Section B of expenses are registered charges; whether they are liquidated or not, they are absolutely registered transactions representing the charges that appear on the books; while income, whether realized or not, also consists of fully registered transactions. The "guarantee," or the reserve for depreciation, or the depreciation reserve, for shrinkage, under maintenance, are entirely estimates. They are speculative amounts purely, resorted to as matters of precaution, and are not the fruits of any righteous transactions between the city and its customers.

Doctor CLEVELAND. I did not say that.

Mr. CHAPMAN. It means the same thing.

Doctor CLEVELAND. I did not mean to say——

Mr. CHAPMAN. But you have the accrual basis, and therefore if you are looking upon this as a comparative summary——

Doctor CLEVELAND. If you are talking from a basis of accrual, by your method you will not arrive at income accrued during the year. Suppose you let a contract to me for $10,000, and within the year I become insolvent; what do you do? You write it down, and you should write your income down, in order to get at your income for the year.

Mr. CHAPMAN. Then the "guarantee" is not simply the writing down of what is lost; it is the writing down of what may be lost.

Doctor CLEVELAND. It is the same thing on an accrual basis as would be the writing down actual losses on a cash basis. You find

your average loss is 2 per cent bad debts. One year it may be one, another three, another four. But you write off the actual loss from that reserve, and you have an income which is actual—something based on the history; you have your own experience as a basis for getting at the income for the year. It is the same problem that you have in depreciation, except that you depreciate your income instead of your profit. It is a thing which is dependent upon actuarial estimates, your balanced calculations, your farsightedness. It is nothing more or less than doing for income what you say is right to do with assets.

The CHAIRMAN. I think, gentlemen, we had better confine ourselves to the paper. We would like to hear from Mr. Chase later.

Doctor CLEVELAND. One other question, and that is whether you should put damages and extraordinary legal expenses into your summary of expense of operation under "administration"—in other words, set up a reserve for them. The question is raised for this reason: that damages and extraordinary legal costs usually grow out of the character of your administration. If you have bad administration in digging a trench for repair of mains, the earth may fall in on the men. If the administration is inefficient, your machinery may break down, being out of repair, and an accident will follow, causing personal damage. In other words, what is called here "extraordinary legal expenses" are incurred largely on account of bad administration. The purpose of the administrative account is to locate responsibility and to do this from the history of the business. Would we establish an average cost? If so, we must determine this from experience. Should we not set up a reserve which will cover the average of these costs and charge that as an expense against the income of the year as a means of establishing the net revenue? Then when we pay damages these might be charged against the income reserve; thus, instead of taking a lump sum of $10,000, $50,000, or $100,000 out of your current revenue returns, we would take out each year an average cost to show the comparative results of administration. If the administration is bad, resulting in large extraordinary legal expenses, why should we not put up a larger reserve? I am simply raising the question. I do not mean to say we should do so. I raise the question, having in mind the purpose of our comparative statistics reflecting cost of administration. The other charges in Class C, presented by Mr. Chase, are in the nature of expenses with which the administration has little or nothing to do and for which it may not be held responsible. We must pay our taxes; franchise charges must be met; insurance must be paid or else the risk carried. There are various charges in the nature of property expenses, and the expenses of procuring capital like interest, which do not reflect on the administration at all. These reflect the style of the organization; the kind of equipment provided; the manner in which the enterprise is capitalized. If we are to reflect

economy, ability, and efficiency in Class B and the overriding charges for which the one in charge of the enterprise is not responsible in Class C, adjustments in the classification should be made to this end. Taxes and insurance, and items of that kind, are property charges. They have nothing to do with the operation and properly belong to Class C.

Another matter of comment occurs to me, in looking over this outline. Mr. Chase has made no provision for surplus (or profit and loss) accounts. He has provided for distribution from surplus in the form of dividend, sinking fund, etc., but he hasn't any accounts showing surplus. If at the end of the year the enterprise shows a net income, after deducting charges, what are you going to do with the net income? And what provision is made for losses on account of fire or flood, on account of strikes and riots, on account of explosions or accidents to buildings, on account of other losses? Furthermore, there is no provision made here for taking account of the various forms of extraordinary returns, as from the sale of a piece of property, over and above what is paid for it, or on account of the collection of a debt that has been written off. There is no provision made in the outline for any of these transactions or to show the financial result of this part of the business. There should be some classification in which you could carry this sort of extraordinary financial returns and deductions, call the statement one of surplus, or what not. We should call this last classification, not charges on account of capital, for they are not charges on account of capital, but distribution from surplus. In other words, this is the source from which the distribution comes and not from capital.

The CHAIRMAN. Is the committee ready to report? Its report was to be made immediately after Doctor Cleveland's paper.

Mr. BECK. Mr. Chairman and gentlemen, your committee, which has had under consideration a paper submitted by Doctor Cleveland, feel that it would be unbecoming in them, in view of the time and study which Doctor Cleveland has given the subject, to attempt at this time to criticise the report in respect to the terminology and definitions given therein; or, on the other hand, to recommend to the officers of the different states, or to the Census Bureau, the adoption of the terms which he has set forth in his report. But we do feel that it would be of interest to the members of this conference, and undoubtedly to other municipal officers and students of municipal finance, if it can be done, that the Census Bureau should have a copy of this report printed, and the various forms of classification laid down therein, that the same might be distributed in connection with the official proceedings of this conference. Do you suppose that can be done, Mr. Chairman?

The CHAIRMAN. I am not sure of it, because there are some legal points in reference thereto. The Comptroller of the Treasury will pass on that.

Mr. BECK. The committee thinks if it can be done, it will be valuable, because otherwise proper study might not be given to the paper, and such criticisms may then suggest themselves to individual members, and be transmitted to the Bureau for its consideration. The committee itself feels that on this matter of terminology we must get down to the simplest form of language that can possibly be used to define the various municipal functions of government, and that there is no one in a better position to lay down or to set up such a form as this adopted by the Census Bureau. They have their agents scattered all over the country, and have made a careful study of it. They know the nature of the offices that exist in each municipality and they are in a better position to decide on forms and expressions than this body, because this is a subject that requires great thought and careful study. It seems to me the terminology that is already used in the preparation of the census statistics is, as a whole, very complete. There are here and there terms which, to my mind and from my experience, might be a little simpler. The Census Bureau, in the expenditures for construction or for the further extension of the addition to the assets of a municipality, uses the expression "capital outlays."

The CHAIRMAN. Outlay, instead of outlays.

Mr. BECK. It seems to me there are many who might not be familiar with that expression or know what it means. It is customary for our department, in the preparation of our reports, to use another term, which seems to us more explicit and possibly a little simpler, and that is the word "improvement." You might couple with that the word "extension," or the word "construction;" but I might say that, with all the advice our department has received from the other divisions of the city government, it has taken eight years to have the estimates submitted to our department classified along these simple lines. It seems to the committee that a suggestion along this line might prove feasible, that the comptroller or the other chief auditing officer who is charged with the responsibility of preparing or tabulating the budget as submitted for the consideration of the council might prepare blanks, or printed forms, upon which these various classifications could be made, and subdivided under such heads as "public safety," "parks," "schools," etc., so that when the estimates are made, they will be in that form; when the appropriations are made, they will be under the same classification; when the Census agent comes along, he will find there in the books themselves the very forms and peculiar phraseology which has been adopted by the Census Bureau. It seems to me a simple solution

of the matter, and if the Census Bureau adopt a schedule the terminology of which shall be simple and explicit and notify the different fiscal officers of municipalities throughout the country, a long step in the right direction will be taken.

The CHAIRMAN. This strikes me, gentlemen, as something eminently worthy to be considered. Is there any further discussion of Doctor Cleveland's paper? That brings up again the discussion of the paper of Mr. Chase.

Doctor HARTWELL. Doctor Cleveland refers to the proper way of classifying pensions. We have no general system of pensions for municipal civil servants in this country, such as is generally common in Europe. The cost of pensions would seem to be an administrative charge, particularly in these municipal schemes of superannuation and retirement, in which the pension and retiring allowance is viewed as a deferred payment of salary.

The CHAIRMAN. Is there any further discussion? I see Auditor McCardy of the Post Office Department here, and would be glad to have a few words from him, if he will consent.

Mr. MCCARDY. Mr. Chairman and gentlemen of the convention, having done time as a city official for a good many years, I would like, in coming to this meeting of accounting officers of cities, to say that it is always a pleasure to look into the faces of the men who do the hard work, furnish the brains, and get little pay and a good many kicks. I might say that if you have any time to spare while you are here, I should be delighted to have you call at the Post Office Department, as there are some things there that might interest you. Where people of all types have bought money orders, and those money orders average $7.50 each, and have to be handled at least six times in accounting and checking up the issuing and paying of them, considerable work is required. It requires in our office about 300 men to handle the money orders. I think you might like to drop in to see how some of your business is done.

A few days ago a gentleman in this city, while talking to me about municipal matters, asked the question, "What is the most interesting question that concerns the taxpayer—the most interesting question from the point of view of accounting officials?" Well, that is a big question. My reply was that everyone would like to know whether the dollar that he pays to the tax collector or treasurer was applied to its proper purpose. My observation has been that the average taxpayer in many cities is not fairly treated in that respect, and in the management of national affairs as well as in cities there is a diversion of funds. There are some stringent provisions against it in some cities, and rightly so; but right under the noses of some city officials money is diverted, just the same.

There are cities in the United States where money is diverted, and I know it is. A great deal has been said as to the form of blanks. I am of the opinion that when you tie yourself down to certain blanks and forms, necessarily you do well. You will get credit for it. But in the levying of taxes and in the preparing of the budget, if you arrange forms so as to show definitely how much is to be assigned by percentages to each fund, and follow that same percentage in the distribution of the taxes when paid into the treasury, there will be no diversion of fund. What do I mean by that? Take, for instance, a city where there are forty or fifty different operating funds, requiring appropriations for fire, police, hospital, poor funds, etc., with various percentages placed on the tax roll for the benefit of each one. Now, let there be a half million paid in and instead of giving round sums to this, that, or the other fund, let it be distributed according to the percentages, and there will be no question as to the diversion of the fund.

Another point—the form for paying out the money: I do not believe that any treasurer or any auditor ought to be permitted to draw his own check as treasurer on public funds. I think that this sometimes leads to trouble, to put it mildly. I know a city where the following plan is employed, and I believe it is a good one: A city clerk, after a bill has been allowed by the proper authorities, will draw a warrant on the treasurer to pay that bill. That warrant will be countersigned by the comptroller. The creditor, in due course, receives the warrant and presents it to the treasurer for payment. In some cities the treasurer would take that warrant in and draw his check. This is not the best plan. The best plan, as in the city I have in mind, is for the city treasurer to stamp that warrant and convert it into a check on a bank. Then there can be no collusion. Every time you copy a figure you multiply the possibility of error. Then this original warrant is the best receipt for the city on its face for the purpose for which it is drawn. The holder of that warrant uses it, and in time it comes back to the treasurer and in due course the bank book is balanced, and he in turn returns it to the comptroller and they take that form as a part of the original voucher, so every transaction is a check for their own warrant. Now, another form——

Mr. Rex. Just a moment. Would you recommend its use in all parts of the country? In some cities they pay warrants on the treasurer under a certain amount in cash.

Mr. McCardy. No; I would not let the treasurer pay a dime over the counter. Another thing; I do not believe it is a good plan to let the treasurer of a city select his own banks. There is too much favoritism under that form of depositing money. No city, having bonds outstanding, that allows coupons to be paid over the counter

into the hands of the holder upon presentation—no city that allows such a proceeding—can tell, at the close of business on a given day, from the accounting officer's books how much money is in the treasury, because there is a disbursement that the accounting officer knows nothing about. When you ask a city official how he pays his coupons, and if he pays in cash, you know at once that that city—that city's accounting officer—does not know at the close of business day by day how much money is in the treasury. Thereby two ways for trouble are opened.

Now, a good deal has been said here. I have been listening to what you gentlemen have said about your manner of doing business in various cities, and I learn that you propose to form a municipal public accounting officers' association. I think you would be wise to do so, for such meetings as this are certainly beneficial—to compare notes, like our friend who is sitting over here, simply asking questions, some of them hard to answer; but it brings out the best thoughts. These forms that you speak of—and somebody over there touched the right spot—these forms, followed up, are educational to the ever changing city official. You may think you are a pretty good official and that they can not get along without you; but you may wake up some morning after election and change your idea about that. I have had that experience, and know all about it. But let a uniform plan of accounting be mapped out in the books of the city, and it will be well for the man who succeeds you, and it will be well for the taxpayer, as it will insure publicity. It is a good idea to take the public into your confidence. It is his business—it is the taxpayer's business—and the more clearly you can explain it to him the better satisfied will he be. Let the newspapers have information as to what is going on.

Let me, in conclusion, reiterate what I said about your visiting our great office, where we audit accounts to the amount of about four million dollars a day. Come in and see how we do some of it. You can get a bird's-eye view of it, and I think it will be very interesting to you.

The CHAIRMAN. Is there any other discussion of the papers this afternoon?

Mr. MACINNES. Mr. Chairman, if there is not anything at the present moment of prime importance to come before the conference, I would suggest, inasmuch as the subject of the preparation of balance sheets and the preparation of revenue and expense accounts have been set apart as a special order of business for to-night's session, that we adjourn, to reconvene at half-past 7. It is now about 5 o'clock; it will give us two and a half hours, and we can reconvene at half-past 7. This time will be required, I believe, to

give something of a general discussion. It will come before us then. I offer this for two reasons. The committee that you appointed a short time ago to review the schedules submitted by Mr. Chase wish to have an opportunity to give them ample consideration. I move that we do now adjourn, to reconvene at 7.30.

The CHAIRMAN. Is there any objection? The motion is made and seconded to adjourn and to reconvene at 7.30. All those in favor will signify the same by saying "Aye;" contrary, "No." The motion prevails, and we stand adjourned.

FIFTH SESSION, WEDNESDAY EVENING, FEBRUARY 14.

The conference was called to order at 7.50 p. m. by the chairman.

The CHAIRMAN. We will begin the business of the evening with the paper by Mr. MacInnes, and immediately after the paper we will have the report of the committee.

Mr. MACINNES. Mr. Chairman and gentlemen, the special order of business assigned for to-night's proceedings is the balance sheet and how it shall be arranged, and also the consideration of the practical value of revenue and expense accounts. At the conference held under the auspices of the Census Bureau in this city two years ago last November I read a paper on the municipal balance sheet, which evoked sufficient discussion, I presume largely because of the principles advocated therein, to justify the belief that a sequel to that paper should follow at this the second conference held under the auspices of the Census Bureau; and believing that the subject should be sufficiently amplified to bring forth a discussion somewhat commensurate with the importance of the subject, and for the purpose of giving my views in regard to the principles upon which a municipal balance sheet must be founded—I say for the purpose of giving these views the greatest publicity among those competent to deal with the subject, Mr. Chairman, I take the opportunity which the kindness of the Census Bureau and your courtesy has afforded of offering this contribution as a sequel to my former paper.

(Mr. MacInnes's paper follows.)

THE MUNICIPAL BALANCE SHEET: THE UNDERLYING PRINCIPLES OF ACCOUNTING WHICH GOVERN ITS ELEMENTS AND THE EXPRESSION THEREOF.

The first financial statements of municipalities, prepared in accordance with the classification of accounts adopted by the National Municipal League (and which classification is designated as the "municipal programme") grouped the receipts and payments in opposition to each other in the order of prescribed titles and subtitles, the nomenclature and sequence of which were identically alike on both sides of the statements. The first or controlling statement dealt with a broad classification, and the succeeding statements developed subtitles by progressive stages of amplification. Throughout the entire series of primary and supporting statements not only were the receipts and payments opposed and distinguished by the same titles and in the same order, but each item of receipt and of payment was further either divided between or allocated under one of the two all-pervading alternatives distinguished by the terms "ordinary" and "extraordinary."

That feature of the theme of expression wherein the receipts and payments were recited with like titles and in like order is being gradually abandoned by its original sponsors and advocates. Traces still linger where a semblance of justification remains, as in the case of opposing collection costs to receipts, or departmental receipts against departmental expenditures bearing but an accidental, or, at greatest, remote relationship to such receipts, but the necessity of giving expression to other distinctions of more vital significance and requiring a radically different arrangement and nomenclature is so certain to supplant the said arrangement peculiar to the "municipal programme," that the only menace it offers to progressive accounting is the time lost in pursuing a path that leads nowhere, and must in consequence be finally abandoned.

The other feature of the theme, however, which seeks to differentiate between "ordinary" and "extraordinary," is one which, although it is destined ultimately to die the death, will, nevertheless, die hard and occasion a correspondingly greater obstruction in the path of logical accounting. It too is a road that leads nowhere, but it is a long and alluring one, and the loss of time spent on its winding course is not so soon to be realized.

One of the purposes of this paper is to show that there is no necessity or reason for recognizing any such distinction, and that the use in municipal statements of such terms as "ordinary" and "extraordinary," or of the later and more popular substitutes, "capital" and "revenue," serves no real purpose and that these terms do not convey any significant meaning.

When the terms "ordinary" and "extraordinary" were first exploited as expressing a governing differentiation in municipal transactions, they were totally destitute of inherent suggestiveness to anyone outside of the circle wherein said terms originated. Inquiry as to what they were intended to convey elicited the explanation that they corresponded in the main to "capital" and "revenue." Taxes, it was stated, were ordinary receipts, while money borrowed on the city's credit by sale of bonds was extraordinary. On the other hand, the salaries and wages of officials, clerks, police, and street sweepers were ordinary expenditures, while the cost of erecting and equipping public buildings or paving streets was extraordinary. In other words, we must picture the operations of a trading corporation as if its going transactions incident to purchases, sales, and management were ordinary or revenue activities, while if it borrows by issue of bonds and pledge of assets to build extensions to its plant or equipment, such are extraordinary or capital transactions.

But the so-called "extraordinary" transactions are as frequent, constant, extensive, and inevitable as the "ordinary" ones, and if capital and revenue are intended, why not say so at the outset? The natural result is that the terms "ordinary" and "extraordinary" are falling into disuse, and the terms "capital" and "revenue" are becoming more popular. Ambiguity, at least, is now removed, and the propriety of the latest expedient can be considered in the light of day, with a full consciousness of what it stands for.

The distinctions "capital" and "revenue" introduced in the general accounts of a city by those adopting this expedient may be due to the fact that the departmental accounts and reports of British cities, and those relating to the public utilities owned and operated by those cities as municipal industries, are controlled by a system of accounts reflecting capital and revenue, cast upon the same lines as those of similar private enterprises; but the failure to distinguish between the genius of the accounts dealing specifically with the separate enterprises of a municipality (referred to further on in this paper) and the underlying principles governing the general accounts of a city, probably comes from the tendency to imagine that the conditions which attach to the familiar accounts of the private corporation bear in their entirety upon the accounts of a city.

A city, as such, has neither capital nor revenue, but consists of an aggregation of private estates with certain properties possessed in common, and its accounts can reflect truthfully only the administration of the common interest by authorized payments from authorized provision or letters of credit, with such other and casual income and expenditure as are incident to its complex activities. All receipts, whether arising from general tax, special assessment, water rates, sale of bonds, or fees and fines, alike come out of the private

estates within the city, some at the outset and others eventually, and all payments are alike for public service on behalf of the citizens, either for their personal protection, education, or convenience, or for increased facilities which heighten the value of their property and the advantages that they in consequence enjoy.

The wealth of a city is as seen from the hilltop. It is the collective wealth of the freeholders and their tenants. Every public building, park, street, and sewer has been paid for by the inhabitants, belongs to them in common, and enhances the value of every business and residential holding, which is taxed accordingly; while the municipal corporation, when considered as a separate entity and apart from the private estates within its territory, is a penniless nonentity. As its balance sheet, therefore, can contain no assets but what belong to its inhabitants and no obligations but what their private estates are pledged to discharge, no significance attaches to the wealth held in common beyond what attaches to the wealth held by each and all individually.

When a public work is undertaken, the funds are raised upon the credit of the collective private wealth which is ultimately to bear the burden of discharging the obligation so created. When the work is completed and put into service by the city, the account credited with the funds raised and charged with the expenditure thereof is closed upon its books and marks the discharge of the trust; while the value of the added facility, whatever it may be, is at once absorbed by the private estates benefited and occasions a latent increase in their value. Any attempt, therefore, to recognize in the general statement of the condition of a city the values of common properties, as if the same were assets available for conversion into funds to liquidate liabilities or to measure a wealth that could be mortgaged by or partitioned among the inhabitants, as if they were so many stockholders, in the same manner as the fixed assets of a private corporation, is seeking to express a condition that does not exist and forcing a construction that is fictitious, arbitrary, meaningless, and withal misleading.

The accounts of a city, if properly kept, clearly indicate the several sources of receipts under a normal and therefore easily comprehended classification. Collection of taxes would not be confounded with proceeds from the sale of bonds, and receipts which are immediately realized would be clearly distinguished from those which draw upon future resources. In the same manner payments for the current expenses of administration, and made out of appropriations or anticipations thereof, call for a radically different procedure with respect to both provision and expenditure from those which characterize the projection of public works and relate to extensions of the city's equipment and facilities.

But while the receipts may reflect broadly the distinction just noted, i. e., as derived respectively from present and from future resources, there is a large proportion that occupy a middle ground, as well as to which other and varied specific considerations apply, and the two extremes so shade into each other that any attempt to draw a line and establish an absolute division under such terms as "capital" and "revenue," or "ordinary" and "extraordinary," can be done only at the sacrifice of a rational and truly significant classification (which the accounts automatically provide in their natural action), and the substitution therefor of an artificial and arbitrary distinction which is meaningless because unreal. In like manner, while the payments may reflect broadly the distinction between immediate necessities and projected betterments, there also exists a large range of outlay upon debatable ground, qualified by isolated peculiarities of purpose and expedient that places them without the pale of any such immediate distinction, and accordingly the same reason that discourages an arbitrary classification of receipts under the two heads stated applies with equal force to payments.

Certain undertakings which yield substantial income are constructed solely by other funds than those that spring from them. The dock department of the city of New York, for instance, is financed entirely by the issue of dock bonds and the premiums realized thereon, both for administration and construction. The distinctive receipts of the department, however, from dock and slip rents are pledged to the sinking fund, which is charged

with the redemption, among other obligations, of said dock bonds, while the receipts from ferry rents are pledged to the sinking fund, which is charged with the payment of interest on said bonds.

Certain accounts receive credit from both appropriations and loans, as, for instance, the fund for street and park openings of the city of New York, where we find local assessments, corporate stock, revenue bonds special, and a direct tax in the annual budget, each carrying its quota of the aggregate provision to a common purpose under the operation of laws prompted by adequate reasons and collectively resulting in such a scheme of finance for this particular undertaking.

The total collections of water rates and interest thereon in the boroughs of Manhattan and the Bronx are deposited to the credit of "the sinking fund for the payment of interest on the city debt," while the operation of the water system is provided for by appropriation. The surplus revenue of said sinking fund for interest is transferred to the sinking fund for redemption of the city debt, and the surplus revenue of said sinking fund for redemption is invested in general fund bonds, the proceeds of which are deposited to the credit of the general fund and used for the reduction of taxation; while the interest on said bonds is paid out of the general fund and into the sinking fund holding them.

The foregoing are but a few of innumerable like instances of expedients perfectly justifiable and rendered mandatory by legal enactment, which go to prove the absence of the distinctions of capital and revenue as fundamental factors in municipal accounts, the interlocking complications and flexibility of which justify the conclusion, that they constitute but a series of related trust funds and deal primarily with the receipts and payments incident to their several means and purposes.

Thus far the argument has been confined to the general or controlling accounts as contained in the comptroller's ledger, but there is another field of municipal accounts to be considered, namely, that which relates to the detail and action of specific departments, bureaus, or undertakings regarded separately.

The accounting system of every specific city department or subordinate bureau must reflect such department's separate and complete entity as well as function; for, notwithstanding that its transactions all clear through the general accounts under such classification of elements as its returns through accounts current require and establish, the details of such upon its own books must mark as complete a revolution as if its existence were entirely independent, but including always, in the circle of action, an account properly expressive of its accountability as a factor to the whole, and which account is complementary to the controlling account or accounts on the general ledger of the city dealing with such department or bureau.

The only principle germane to our subject to be developed in this connection is that while the general accounts of the city reflect neither capital not profits with respect to the value or earnings of public utilities, the department accounts may properly do so in certain instances. Municipal gas and electric plants, waterworks, or street car lines, when acquired and operated by the city as municipal industries, should be controlled by a system of accounts cast upon the same lines as those of similar private enterprises, and the distinction between capital and revenue should be made in precisely the same manner as is done by private corporations, with the exception that the city constitutes the sole proprietary interest and stands in the position of holding all the stock. This apparent recantation of the doctrine previously advocated in this paper arises from the fact that a municipality is not essentially an industrial enterprise, and when trading functions are undertaken by it they must be regulated and their operations reported by accounts conducted in accordance with that of private business, involving not only the underlying principles of capital and revenue, but also such relationship thereof as will justify either the continuance or abandonment by the city of such undertaking. For these reasons they are regarded in the light of a municipal enterprise isolated from the function of city government, but financed by the city treasury and underwritten by the public credit.

Let us follow the simple action of the accounts that would be raised upon the general books and department books incident to the construction and operation by the city of waterworks.

First. Upon the general books.

The bonds issued for waterworks construction should be charged to "principal of the city debt" and credited to "water bonds" in the full amount of the loan. The cash proceeds of said bonds would be credited to water construction fund, creating a letter of credit against which drafts would be drawn for construction, and which fund would liquidate upon the completion of the work. When the loan or parts thereof matured, "water bonds" would be charged and "principal of the city debt" credited, and the cash payment therefor would be charged to "appropriation for redemption of debt" or to "sinking fund," as the case might be.

Appropriations for operation and the drafts thereon, pending the development of the industry and revenue therefrom sufficient for its purposes, would form part of the departmental budget and tax levy, while after the current revenue exceeded the current expenses a "water revenue account" would receive credit for the water rates, be charged with the operating expenses and annual application of surplus to either redemption of loan or reduction of taxation.

The former would comprehend all the general accounts, and, apart from those dealing with the loan, would constitute merely letters of credit available for payment of related claims.

Second. Upon the departmental books.

The proceeds of the bonds would be charged to "construction fund" and credited to "water loan" for the par value, and to "premium account" for the premiums, if any.

The cost of erecting and equipping the works would be credited to construction fund and charged to the several construction accounts, classifying such expenditure under titles expressive of the distinctive parts or features of the work and the specific character of the properties created or assets acquired.

The redemption of the bonds, whether by direct taxation or by sinking fund installments, would result ultimately in a charge to "water loan" and credit to "appropriation for redemption," and when finally both the construction fund and water loan were liquidated the books would show the property values standing at the debit as assets and balanced by the appropriations for redemption and premium account standing at the credit as liabilities. As the assets and liabilities, however, are merely nominal and are expressed only for purposes of record, they may then be all cleared into a general résumé, and so disappear from the succeeding trial balances of the departmental ledger. Any preliminary "appropriations for operation" and all subsequent receipts for water service and other income would be charged to "operating fund" and credited to the several income accounts, classifying said receipts under titles expressive of their source, including "appropriations for operation" when active. The operating cost would be credited to the "operating fund" and charged to the several expenditure accounts, classifying said expenditures under titles expressive of their nature and purpose. The surplus revenue over and above the requirements of operation, when realized and paid over to the city treasury, would be credited to operating fund and charged to surplus revenues, which latter account would rank against the appropriations received and show the recovery by the city of its initial advances, and later, by showing its relative volume to the sum of interest on loan, reserve for depreciation, and kindred considerations, would measure the advantages or disadvantages of municipal management as compared with private management of such industry as the city undertakes to engage in.

By bringing together the several income and expenditure accounts at the close of each fiscal period, it will appear that the income accounts are balanced by the charges to operating fund and the expenditures by the credits to operating fund, while the balance of the operating fund, less any margin reserved, will equal the surplus revenue transferred, so that

by making the proper transfer entries all accounts will close with the exception of unliquidated items, leaving a full record but withal a clean slate, and all considerations of capital and revenue comfortably housed and out of the way.

The foregoing outline relating to the accounts dealing with municipal enterprises has, for purpose of illustration, been confined to a cash action; but as assets by way of accrued income, and liabilities upon admitted claims unliquidated, and constituting respectively the trade debtors and creditors, will be a constant factor in the assets and liabilities, and require suitable provision in the accounts, certain individual and controlling accounts will appear in addition to those named, as would also be the case in the accounts of a private water company; but it would be only a matter of time to show their articulation with the accounts mentioned, and it is unnecessary to do so in order to illustrate the point.

The arguments preceding and regarding the underlying principles governing the general accounts of a city are connected inseparably with and form part of our subject relating to the properly accredited municipal balance sheet. In a former paper on this subject submitted by me at the first conference held by the Census Bureau, in November, 1903, I said, *inter alia:*

The public works, improvements, and utilities possessed by the community belong to the people and the municipal corporation is merely the keeper or trustee, possessing no right to sell or convert that would warrant their inclusion on a balance sheet designed for the purpose of expressing the related resources and obligations of an estate with the implied realization of the one for the liquidation of the other.

In order that a balance sheet may have any excuse for being, a positive and essential meaning must attach to the balance stated thereon; and therefore the balance sheet of a municipality must array on its opposite sides only such values as can be measured and the difference between which represents the value of a significant and appreciable fact.

The balance sheets which of late years have appeared in certain municipal reports have apparently been created from an erroneous conception of the true status of a municipality, comparing and confusing it with a commercial undertaking and arraying among the assets, in addition to cash and elements realizable, such items as the cost or the conceded values of parks, bridges, schools, and other public buildings, waterworks, and similar possessions, broadly designated as "fixed assets," "capital assets," "unavailable assets," etc., and arraying as liabilities the floating and funded debt.

The most recent development of a balance sheet cast on the lines referred to which has come to my notice classifies the "assets" (?) of the city under review as follows. "Capital assets," "fixed properties," "remunerative and realizable," "unremunerative but realizable," "unremunerative and unrealizable." The assets classed as "remunerative and realizable" we find to be the waterworks; the "unremunerative but realizable," parks, boulevards, public buildings and their equipment, and equipment of all kinds belonging to the city; and the "unremunerative and unrealizable" comprise bridges, street pavements, sewers, etc., and amount to fully 45 per cent of the whole.

The further the principle of accounting which leads up to a balance sheet such as referred to is exploited the more remote we are from the plane of reasoning to which we will ultimately have to return, and the further deferred is the time when a "municipal balance sheet" will be realized which will reflect underlying truths and show clearly to bondholders and taxpayers alike the assets and true status of the municipality.

The floating status of a municipality is determined by the difference between the cash funds and realizable assets, such as taxes, assessments, water rents and miscellaneous revenues, so far as contained in the books, on the one hand; and on the other, by the cash liabilities upon warrants registered, claims admitted by the auditor, and contingent liabilities, reported by the several departments with due regard to preserving the proper relation between the resources and obligations, so that the realization of the one would measure the means of liquidating the other; the result of balance would show the condition of the public trust with respect to its floating assets and liabilities at the date specified, and indicate accordingly the deficiency to be met in the ensuing period or the surplus available for lessening the succeeding year's tax levy; in short, such a balance would show what has been taken from or would be added to the resources of the period following.

Under the constitution of the state of New York the debt contracting power of cities within its borders is limited to 10 per cent of the taxable value of the real estate subject to taxation within the corporate limits of the municipality, and it therefore becomes a matter of great importance to determine correctly the margin of credit yet available for issuing corporate bonds of the municipality. The determination of this important feature in municipal finance forms the subject of the second development of the municipal balance sheet, arraying as liabilities the gross funded debt of the municipality less the amount thereof held by the sinking funds of the city itself; and on the other hand, showing as the only asset possessed by the city the amount representing 10 per cent of its real estate subject to taxation. The resultant balance is what the municipal corporation may be fairly said to possess by virtue of its charter and functions, and therefore constitutes the sole basis of its credit and the measure of its right to engage in future public undertakings.

These opposing principles in municipal accounting, as reflected by the two forms of balance sheets referred to herein, were compared during the latter part of 1904 by the comptroller of one of our largest cities in such graphic parallel, in an official communication bearing on the subject, that I feel constrained to introduce the following excerpt therefrom:

The proposition has been considered and discussed of substituting this (new) form and method of accounting for these liabilities in place of the method now in vogue, which is to array against these liabilities as offsetting resources the property of the city, such as real estate, buildings and equipments, and then set forth the resultant balance, presumably as an exponent of a condition of the municipal trust or of the value of the city's credit, of which it is neither.

The main points favoring a substitution of this method of accounting for this phase of the city's finances are as follows:

First. The new form sets forth an alignment of resources and liabilities which are not only both of the same nature and actuality, but absolutely and specifically correlative.

Second. In the old form there is an array of assets of no bearing or value toward the payment of the liabilities against which they are arrayed, or the payment of any other liability of the city. They do not even represent, as is supposed by some, the product of the liabilities.

Third. The resultant balance, as shown in the new form, sets forth a real condition in the finances of the city, the knowledge of which is important to their proper administration.

Fourth. The resultant balance in the old form sets forth no appreciable condition or value whatever.

Fifth. The new form displays every feature, both of nature and purpose, essential to a properly accredited balance sheet. It arrays values which are real, measured, and correlative, and from which is deducible a condition necessitating thought and action. It constitutes, in a word, a proper coordination of financial data and values around a problem of municipal administration which is practical and useful.

Sixth. The old form is simply an attempted amalgamation of heterogeneous values producing a resultant balance of no actual meaning, disclosing no condition of debt or value of proprietorship; but, on the other hand, by its use conceals a problem which is important and should be clearly set forth to those administering the finances of the city.

Seventh. It may be added that the use of this new form and method in the past might have prevented entirely the deficiencies of resources which appear upon this balance sheet, or at least it would have prevented the concealment of this condition from the different administrations.

The main objects of a municipal balance sheet should be to show (*a*) the floating status of the city and the possibilities of realization to liquidate current liabilities; and (*b*) to show clearly the legal margin of its borrowing capacity, so that the prospective bond buyer and taxpayer alike may know at once the measure of its right to engage in public undertakings.

Can either of these essentials be deduced from a balance sheet which arrays as "assets" the properties of the city, of the people in common, none of which could be parted with, and the city still carry on its governmental functions?

Do even those classed as "remunerative and realizable" possess any power or value toward the payment of any liability arrayed on the opposite side of the balance sheet? Its waterworks are essential to the health and well-being of its people and could not be "realized" upon or parted with except at great detriment to the city's interests, and neither schoolhouses, police or fire stations, nor any other of the public properties classed as "unremunerative but realizable" possess any power or value toward the payment of any debt of the city;

neither could they be "realized" upon or parted with by the city except at the expense of substituting others (in all probability of an improved character) in their place, and thus creating additional liability.

The very suggestion that a city might sell its waterworks, which is in a measure indicated by arraying such, as a realizable and remunerative asset, against its liabilities, is a backward step in these days of progressive municipal administration, when all cities of any note, even lethargic London, are awakening to this prime necessity of possessing and operating their own water supply system.

Is the form of balance sheet in question any more than in the words previously quoted, "simply an attempted amalgamation of heterogeneous values producing a resultant balance of no actual meaning, disclosing no condition of debt or value of proprietorship; but, on the other hand, by its use conceals a problem which is important and should be clearly set forth to those administering the finances of the city?"

The municipal balance sheet which I outlined in the paper presented in 1903 would display every feature, both of nature and purpose, essential to a properly accredited balance sheet. It would array values, real, measured, and correlative, and from which would be deducible an actual condition. It would constitute a proper coordination of financial data and values around a problem of municipal administration at once practical and useful.

As an appendix to the properly accredited municipal balance sheet a statement, showing on the one side the total cost of all city properties, such as public buildings, docks and ferries, waterworks, etc. (as far as such could be ascertained from the records), and on the other, the current conceded values of same, would throw some light on the administrative side of the question, and thus viewed would have its own interest; but to include the values of such as an integral part of the balance sheet proper would be, in fact, to repeat values that were merged already into and have become a part of the values of the taxable real estate of its citizens and on which alone the credit of the municipality could be based, and which measured its legal right to or precluded it from immediately engaging in further public undertakings.

If, on the other hand, the legal right of a municipality to engage in permanent improvements were to be determined by the so-called "capital surplus," as arrived at by arraying the cost of streets, sewers, parks, bridges, public buildings and equipment, etc., against the sum of the unliquidated liabilities incurred to meet the same, the resultant balance of which is stated as the capital surplus, such a course would probably emphasize a policy that is followed largely by British cities of making the future pay the total cost of all public improvements, and thus become a factor in leading the cities of the United States, as it has lead many British cities, into inordinate increase of the public debt.

The CHAIRMAN. Just a moment, please. I believe we were going to have the committee report. Mr. Chase, is the committee ready to report?

Mr. CHASE. It has not come in yet.

The CHAIRMAN. Then we will go on.

Mr. CHASE. Mr. MacInnes's views on the municipal balance sheet should be received with great interest and attention by all of us. It seems to me that when we get down to a final statement as to what the difference is between the two points of view, one represented by Mr. MacInnes and one represented by the gentlemen on the other side, we find two propositions on each side. In one we have a balance sheet, which Mr. MacInnes has described as the "old form," in which the costs of public properties are set upon the left hand and the outstanding bonds set upon the right hand. This form of "balance sheet" is, in fact, a trial balance of the books, set up for purposes of

disclosing the costs of properties, but not, as Mr. MacInnes infers, for determining the "surplus" of a city. Looked at from the trial balance point of view, the municipal balance sheet arranged in that way is a proper statement. In addition to such a statement there must be, either in the form of a balance sheet like Mr. MacInnes's or in the form of a statistical statement, as is ordinarily provided in municipal reports, some presentation of the debt, the debt limit, and the available debt margin within which new debt can be issued. Taking the first case, we have a balance sheet showing the cost of properties, and in addition a statistical schedule of the debt limit. In Mr. MacInnes's form we have a balance sheet of the debt and the debt limit, a statistical statement of the cost of properties. I do not see that there is any important difference in the two points of view.

The CHAIRMAN. While the committee are discussing their report, I wish to call the attention of some of the students of this subject who have examined the British reports, or might wish to note certain peculiarities, to the fact that the most prominent of the British exhibits and the one, the balance sheet, to which Mr. MacInnes took exception, does not use the word "asset" in any form whatever.

Mr. MACINNES. The British one?

The CHAIRMAN. The "Borough Bolton" balance sheet, so-called, does not have the word "asset" in it, and that exhibit does not pretend to be a balance sheet.

Mr. MACINNES. That is the Bolton one?

The CHAIRMAN. It speaks of the various classes of public works and the liabilities that the city or borough has incurred by reason of such works in their requirement. This may be a fact that has a significance from the accounting standpoint or the statistical standpoint, or it may not. As I understand Mr. MacInnes, he would not object, necessarily, to such a thing as a statistical exhibit, provided it was not called a balance sheet. I would like to have him state what is his attitude toward the last statement.

Mr. MACINNES. Mr. Chairman, providing that it did not mean open accounts in the ledger as carried on the books as assets of the city, I believe that affixing to the balance sheet the statement, such as the city of Bolton does—not displayed by them as a balance sheet at all, but simply as a statement of the cost—would have its own particular interest.

Mr. TRACY. I would like to tell Mr. MacInnes of the difficulty that occurred in one of the smaller cities in Ohio. The people of the city desired to secure a railroad through their place, and they proceeded to offer a bonus of $80,000 (I think it was) to secure the railroad for their city. The limitation upon the bonded debt of cities of Ohio is 8 per cent of the duplicate value. The bond for the purpose of raising a bonus was floated. When the supreme court of Ohio

passed upon the case, it pronounced them special assessment bonds, a part of the bonded debt, and so decreasing the available debt limit of the city. The issue was floated and the bonds fell into the hands of outside parties. The supreme court of Ohio held that the bonds need not be paid; they were illegal, and that the purchasers of the bonds should have taken cognizance of the limit provided by the Ohio statute. The United States court held that the citizens had overstepped their rights and that the city would have to pay for them. Now, just what condition would the balance sheet of that city show under those conditions?

Mr. MacInnes. If the Supreme Court of the United States can determine that those bonds were an obligation of that city, the bonds would show as part of that debt.

Mr. Tracy. The obligation would be a deficiency.

Mr. MacInnes. In other words, it would be debarred in the state of Ohio until the assessed value of the property had risen to wipe out that deficiency.

Mr. Tracy. Yes; but how would it stand in view of the decision of the Supreme Court of the United States?

Mr. MacInnes. You say the Supreme Court of the United States said that they must be paid?

Mr. Tracy. The Supreme Court said that they overstepped their rights. The bonds were floated. They should have been enjoined.

Mr. MacInnes. But that would make no difference whatever in dealing with the bonded debt. It appeared to the Supreme Court that the city, having received money in return for those bonds, was under obligation to pay them, and the only penalty imposed upon the citizens thereby consisted in restricting the city from incurring any further debt. That was the penalty. Just a moment; I will give you a somewhat similar illustration. In 1895, when the constitutional limitation of 10 per cent on real estate of the assessed value was enforced upon a greater number of cities than had heretofore obtained, Long Island City found itself with a debt beyond 10 per cent of the assessed valuation of the real estate within its corporate limits. The result was that Long Island City could make no further improvements. Long Island City was estopped by law from making any further improvements except such as it could meet from current revenues, but the law did not say that the fifty or one hundred dollars' worth of bonds that were in excess of the debt limit were worthless—not at all. The obligation assumed by the city when the bonds were issued continued, so far as the city was concerned, but its citizens were punished to the extent of not being able to do anything until they had increased their valuation. So your case in Ohio, although predicated on a different condition, resulted in the very same thing.

Mr. HENDERSON. We have failed to find three members of our committee. If Messrs. Turner, Shepard, and Tyson are in the room, will they please come forward and sign the report?

In behalf of the committee on resolutions and procedure I beg leave to submit the following as its report:

Your committee upon resolutions and procedure submits the following for the consideration of the conference and recommends its adoption:

First. It is the opinion of this conference that it is expedient for it to indorse a definite form for the annual reports of city comptrollers and city auditors and to urge upon city councils, through the officials attending this conference and otherwise, the adoption of the form herein described for all such reports.

Second. That the basis for such definite form should be the distribution of accounts prepared by the Census Bureau, labeled G12.

Third. That the departures from this form should be none other than those suggested or sanctioned by the Census Bureau.

The changes in G12, recommended by the committee, if found expedient by the Census Bureau, are as follows:

Inquiry 3c.—Damage settlements and judgments, to be transferred to inquiry 80.

Inquiry 5a.—Add the words "vital statistics" in parenthesis.

Inquiry 9.—To be transferred to inquiry 80.

Division IV.—Public highways and sanitation. It is recommended that "public sanitation" be embraced in a separate division, and that inquiry 4 be devoted only to "public highways."

Division VI.—Public recreation. It is recommended that inquiry "public playgrounds" be added after "public parks."

Under Division X.—"Public debt." It is recommended that the following subdivisions be used, to wit: Funded debt; current revenue debts; special assessment debts; judgments for prior years; miscellaneous debts.

Inquiry 84.—It is suggested that the purpose of the subdivisions be made clear by the addition of a few explanatory notes.

Division XI.—Taxes, etc. (payments), is to be transferred to a page preceding "general administration" and arranged in a form corresponding to "receipts from taxes," "licenses," etc. The definite form of schedule, as thus amended, is hereto appended.

In the opinion of the conference it is essential that payments on account of "expense" of every city be separated distinctly from "outlays" for construction, and that separate columns or separate schedules be universally required for these statements in all municipal reports.

Therefore, be it resolved, That the conference recommends to the municipalities of the United States, through the accounting and auditing officials here assembled, that special efforts be made by all cities to supply the information desired by the Census Bureau touching the administration of their accounts, and that such officers cooperate in every respect with the Bureau, to the end that there may be established uniformity of municipal reports throughout the country.

Be it further resolved, That in the opinion of the conference it is advisable for city councils to pass their appropriation bills or "budgets" in the form herewith submitted by this committee and indorsed by the Census Bureau, so far as practicable under the requirements of the law in each city; it being evident to the conference that if appropriation bills are thus drawn and passed in the standard form, the subsequent work of comptrollers or auditors throughout the year will be greatly simplified and brought into close alignment with the standard schedules. The production of annual reports in accordance with the standard forms here recommended must then necessarily follow.

Be it further resolved, That it is the sense of this conference that to secure the results set forth in the foregoing resolutions it is desirable to hold annual conferences of auditors,

comptrollers, and other accounting or fiscal officers of cities, counties, or states in central localities in the United States, for the purpose of discussing uniform methods of accounting and reporting and such other matters as may be germane to these questions. When such meetings are held it is the wish of this conference that the meetings shall be addressed by the chief statistician or other official of the Census Bureau upon the subject of uniformity in municipal accounts and reports. Through such agency there will be secured such cooperation of officers as will greatly aid and assist in bringing to all cities and to other corporate bodies the benefits that must necessarily follow the adoption of a uniform system of reports and so far as possible of accounts.

Respectfully submitted.

HARVEY S. CHASE, *Chairman*,
HARRY B. HENDERSON, *Secretary*,
H. L. AUSTIN,
LOUIS BETZ,
W. McV. EVANS,
WILLET B. GANO,
JOSEPH F. TRACY,
WALTER J. SHEPARD,
WALTER M. TYSON,
Committee.

Mr. HENDERSON. I move the adoption of the recommendations and resolutions as read.

The CHAIRMAN. Do I hear the motion seconded?

Mr. BECK. I second the motion.

The CHAIRMAN. Is there any comment or discussion?

Mr. HENDERSON. I sincerely hope that this conference will not pass by the recommendations and the resolutions that have been offered without discussing, in part at least, the last resolution offered, namely, that recommending a conference to be held in various sections of the United States for the purpose of discussing uniform methods of accounting and reporting and such other matters as may be germane to these questions. I am confident that through such conferences, or the agencies that will be established by such conferences, great good must necessarily follow. Moreover, there will be rapid strides in arriving at uniform methods of accounting and preparing annual reports. I am convinced that this is a solution of what has been a vexatious problem. I am advised that if such conferences shall be held, the Census Bureau will cooperate in every way possible. The advantages of such cooperation are obvious. This matter has been suggested to the Census Bureau while this conference has been in session, and it has signified its willingness to cooperate in the holding of such conventions. If these resolutions are adopted, great advantages will result to the accounting system, not only of the municipalities but to those of the states and counties as well.

Mr. AUSTIN. I don't want to say anything at length upon this subject, but I wish to call attention to the fact that during the past year the state of New York has passed a law requiring uniform reports

in various classes of municipalities. Those classes are of various kinds—including villages having a population of over three thousand inhabitants, and also the second and third classes which include every city in the state of New York, except New York city and Buffalo. It is our purpose and our fervent desire to cooperate with the Census Bureau and to work along the lines laid down by it. The act became a law by the governor's signature only last June. We are now working upon the schedules. We began with the villages, because we knew that the cities were all covered to a certain extent by the Census Bureau. We have since taken up the smaller cities. This was done at the instance of Mr. Metz, the comptroller of the city of New York, and let me say that as regards this movement the Census has no better friend. As soon as we get reports from the various municipal bodies for the year ending December 31, 1905, it is the purpose of the comptroller to call a conference of the fiscal officers of such municipalities in the state of New York, which will be along the lines of the conference which you have called here, and endeavor to get to working in cooperation with our department, and to make uniform municipal statistics within the state of New York.

Mr. BECK. Following Mr. Austin's statement respecting reports of New York, I would like to say that next week a convention of Michigan comptrollers, treasurers, and other fiscal officers will be held at Grand Rapids for the purpose of securing from our state legislature a law similar to those now in force in the states of New York, Ohio, and Wyoming. I sincerely trust that we shall be able to secure the passage of such a bill. It has the hearty indorsement of nearly every one in the state who has given the matter any thought or consideration. If the law is passed, we will endeavor to cooperate with the Census Bureau and use our best efforts to put municipal statistics on a uniform basis.

Mr. RIVES. Mr. Chairman, I would like to ask what sized cities are included in Bulletin 20? In our state, if such conventions were held, we might possibly be left out, as we do not come within the 30,000-inhabitant list.

The CHAIRMAN. We are having a bulletin prepared that covers your town; that is, it covers towns of from 8,000 to 25,000 inhabitants.

Mr. RIVES. That is all right, Mr. Chairman. I was just wondering whether or not we would be included. You see, we have a great many little cities down there. I did not know what sized cities you had embraced in your inquiry. Now, I shall take great pleasure in doing what I can toward furthering in every way possible the movement to assist the Census Office.

The CHAIRMAN. I will state in further explanation, for Mr. Rives's benefit, that this is the general proposition: The Census is authorized

to make a decennial exhibit of the finances of cities of all sizes. Then there is a special law that authorizes us to take statistics of cities of 30,000 inhabitants and over annually. These statistics that I am speaking of, including 369 cities, are for cities of 8,000 to 20,000 people. They will be published in a separate bulletin covering the ground, not in as large detail but along the same specified lines as Bulletin 20. There will be other bulletins that will give the statistics of county organizations and other civil divisions.

Mr. WILLIAMS. I suggested to Mr. Henderson that in holding conferences in different parts of the country, especially in our own, a person gets good ideas from these western men. I think it will be advisable to hold them annually, so that we may come in contact with the western men and get the benefit of their ideas. It will help us materially in perfecting our reports.

Mr. RIVES. I heartily indorse what the gentleman from Rochester says. I have gathered a great deal from these western men, and would say that I would like to have these conferences held biennially. In our neighborhood, in the southern country, the ideas of a few of these western men would be of advantage to us.

Mr. PRATT. I can not let this conference pass without saying something. I did not intend to say much; I came to listen. Two years and three months ago, when we had our last conference, the city of Lincoln, Nebr., was represented. At that time we had no system of bookkeeping whatever in our city, but since then we have adopted a system that we believe is very good indeed. I have a few of our reports here. Two have been sent to Mr. Powers, and I believe he is well pleased with them. I think Mr. Henderson has struck the keynote for success in this resolution in which he asks auditors, comptrollers, and other fiscal officers of cities to get together in central localities throughout the United States and talk over this matter of uniform accounting. Had we not been represented here two years ago, we should now be in the same hole that we were before.

I have a little story to tell which is not of very vital importance, but which has some bearing upon the subject, and when I have finished you will understand the meaning. There was a man who died in a small place in Illinois. The town was not in possession of a cemetery. A committee was thereupon appointed to take some action. They went out and secured a site for a cemetery. Then came the query, What inscription should be placed over the portal? The word "Welcome" was suggested, but after a little discussion objection was made to that word. The committee went out, then came back and reported as follows: "Mr. Chairman and gentlemen, an objection having been raised to the word 'Welcome' being placed over the gate at the entrance of the cemetery, we have changed it so

as to read as follows: 'We have come to stay.'" So, Mr. Chairman, I hope this convention has come to stay.

Mr. WILSON. The strongest argument in favor of the recommendation made by the committee is the fact that on the floor of this conference there are but three representatives from west of the Mississippi river; that is, only three states are represented. There are two delegates from Colorado, one from Wyoming, and one from Nebraska. We do not consider St. Paul west of the Mississippi. She is in so close touch with the commercial cities of the world that we do not recognize her as being as far west as that. From the South, I believe, there are but four—that is, south of this city. They have not been as largely represented as the Eastern states, and I believe that if we had the annual conference at a more central place, we should have representatives from all sections.

Doctor HARTWELL. There appear to be forty-eight names on this register, and I have an anxious feeling that some of the gentlemen who have been in attendance here have failed to place their names on the register. As they are entitled to inscribe their names as delegates and members of the conference, I hope they will take the opportunity of doing so before they leave to-night, in order that we may have a complete list to print in the proceedings.

Mr. CHASE. The motion was made that the report of the resolutions made by the committee be adopted. I have listened quite carefully, but do not think the motion has been seconded.

The CHAIRMAN. The motion has been discussed concerning the last section of the resolutions, as to the holding of conferences in central locations, and the request was made by the committee that that be discussed, and all the discussion so far has been with reference to that particular feature.

Mr. MACINNES. That part of the report has been disposed of, but the rest of it has not been discussed at all.

Mr. REX. I think that our city is a trifle ahead of some others, from the fact that to-day we believe we are on as sound a basis as the Census Bureau desires. At the present time we have an ordinance which requires the auditor to keep his books in accordance with the desires of the Census Bureau. Regarding the sectional meetings, I think the plan a very good one indeed, and I trust the Census Bureau will see its way clear to carry out the scheme outlined by the committee.

Mr. MACINNES. Mr. Chairman, in regard to the report submitted by the committee, suggesting certain changes in the schedules, as arranged by the Census Bureau, I wish to say a word or two. The committee suggests that "sanitation" be divorced from "highways;" that they be separated. I think that the committee, or this conference, should go further and discriminate between "public health"

and "sanitation." I believe that the Census Bureau classification should stand "public safety," including only that which in the great popular mind for centuries has been understood as coming under that head. Our police, our fire protection, our militia, practically cover all that you have within the purview of "public safety." Of course the police magistrates' courts are part of the police. Then, as to charities and corrections: It seems to me that coupling charities and corrections in a statement uttered by a municipality indicates that there is still with us a relic of barbarous times, when the poor vagrants were classed among the malefactors.

Looking at the schedules again, Mr. Chairman, the committee seek to limit the public debt statements to fewer headings. We take your classification and set out public debts, revenue debts, special assessments, judgments for prior years, and miscellaneous. Now, all debts are revenue debts, because they must all be paid out of revenue; and so it seems to me that you should call them current revenue debts. If you say current revenue debts alone, Mr. Chairman, you would not be able to classify the debt of the city of New York under this prescribed classification. We have a funded debt; we have a current revenue debt; we have a special revenue debt; that debt which is deferred until next year; and current revenue debt that is immediately payable. Looking at it from the standpoint of our city, you would require to have another classification in there. I call attention to this because we wish to have this form, and the Census Bureau wishes to classify comparably all the debt statements, as far as they are able.

Doctor CLEVELAND. There is one point to which I want to call the attention of our friend. It is one that has been raised many times, and is not a theoretical question, but an institutional one. In some cases you have charities and corrections combined, and in others you have charities and hospitals combined, and in another case you have another combination. It is an institutional one and not theoretical. The question is, how can that be solved? The Census Bureau is perhaps more capable than others, as it comes in contact with the institutional facts. I wish to call attention to some of the institutional facts that the Census Bureau has come in contact with, a few of which they have put in the wrong place—that is courts, under public safety, protection of life, health, and property. We have here all kinds of courts: Municipal courts, probate courts, coroner's courts, superior courts, etc. The courts that we meet are very largely civil, as well as criminal. Now, to say that a civil court should be put with a police department is no more logical than to say that the mayor or city council should be there.

Mr. MACINNES. I said the police magistrates' courts.

Doctor CLEVELAND. I was speaking of the Census classification and not criticizing your remarks.

Mr. MACINNES. Excuse me. I thought you were attempting to punctuate my remarks.

Doctor CLEVELAND. I will punctuate them and send you a copy. Mr. Chairman, it seems to me that this goes more properly under general administration than it does under public safety. It belongs with the executive. The legislative and the judiciary come here together, on account of the great diversity of practice. It tends to throw out of joint all that are classed as public safety, and I believe it would be better treated in that other relation. There is another reason for it, and that is also institutional and not theoretical. That is, as explained by the chairman himself, that in many of the small cities the mayor's is the only court in the city; and therefore it must be put there. It seems to me there are many advantages by putting the legislative and judiciary up there; that the law officers are as much for protection and public safety as the magistrate is. There is positive advantage to be gained by putting that there instead of treating it with fire, police patrol stations, etc.

The CHAIRMAN. Is there any further discussion of the subject? If not, I will put the motion. All those in favor of the acceptance and the adoption of the resolutions as presented will signify the same by saying "Aye;" contrary, "No." The motion prevails; the resolutions are accepted and adopted. Have we any other committee reports at this time?

Mr. MACINNES. Mr. Chairman, the committee to which was referred the schedules submitted by Mr. Chase this afternoon wishes to report. The schedules submitted by Mr. Chase, to provide for a standard form of uniform reports for municipal industries and public service corporations, classifying the revenue and expense of such, have been considered by your committee, which has amended these schedules and now submits to you a résumé of comments which it has made; and I might say that the changes which it recommends are the result of careful consideration by the committee, and of its unanimous conclusions on the different subjects touched upon.

Mr. Chairman, I wish to thank Mr. Momsen and his staff for having furnished us with very clean and excellent copies of our work as amended.

(Mr. MacInnes explained at length the amendments made by the committee in the schedules referred to it. After considerable interlocutory discussion, the chairman put the motion to accept the report of the committee and to adopt the schedules as printed below. The motion was passed and the schedules adopted.)

Schedules for standard and uniform reports for municipal industries and public service corporations.

Adopted by the Conference on Uniform Municipal Accounting, called by the United States Census Bureau, Washington, D. C., February 13 and 14, 1906.

REVENUE AND EXPENSE.

(Income and expenditure.)

[*a*] REVENUE.

Sales of product (water, electricity, gas, etc.)	$
Less rebates, refunds, discounts, etc.	
Net proceeds from sale of product	

[*b*] EXPENSE.

1. Expense of manufacture (or "supply" for water)	$
(M. o.) Operation (running expense)	
(M. m.) Maintenance (repairs and supplies)	
2. Expense of distribution	
(D. o.) Operation (running expense)	
(D. m.) Maintenance (repairs and supplies)	
3. General expense	
Not including taxes, insurance, damages, guaranty, depreciation, dividends, interest, or sinking funds.	
Total "expense"	
Proceeds, less expense	

[*c*] CHARGES AGAINST REVENUE.

Taxes	$
Franchise payments	
Insurance (fire, accident, and fiduciary)	
Damages (*extraordinary* losses, legal and other expenses)	
Guaranty (against shrinkage of current assets)	
Depreciation (against shrinkage of capital assets)	
Total "charges against revenue"	
Net revenue (proceeds, less expenses and revenue charges)	

[*d*] APPLICATION OF NET REVENUE.

Dividends	$
Interest (net)	
Sinking funds	
Amortization of franchises	
Total "application of net revenue"	
Surplus (or deficit) from sales of product	

[*e*] REVENUE FROM OTHER SOURCES.

Surplus (or deficit), current year	
Surplus (or deficit) from prior years	
Total surplus (or deficit) at close of current year	

The CHAIRMAN. I am requested to state that immediately at the close of the formal meeting of this conference there will be a meeting of the fiscal officers.

Shall we take up for a few moments before adjourning the other subject that was on the programme—that of revenue accounts, as illustrated by one or two of the cities like Pawtucket, R. I.? Is Mr. Rex here? Perhaps he is ready to present this matter briefly. I

will call attention to the fact that we have a number of these reports in the back of the room, together with the report of Mr. Chase with reference thereto, but it may be a little late for the discussion that was desired for this and was contemplated at the outset. Some of these reports will be passed through the room if you desire.

Mr. Rex. The purpose of this Pawtucket report is to get in line with the Census Bureau, and to be in a position where we can make comparison of costs of running the different departments of other cities of practically the same size. The reports are here and I think quite a number of the members of this convention have looked them over, and I will say, so far as the report of the committee on resolutions, this evening, is concerned, that this report is practically on the same lines as the schedules just adopted. Perhaps it goes a little further. You will see that we have followed the same lines the Census Bureau sets forth in practically all of the classifications. If there are any questions which any member of the convention desires to ask me, I will be only too happy to answer; but to go into a full explanation of the entire report, and to show how conclusions were arrived at, will take more time than I think this conference ought to devote to it.

I will say that already I have prepared schedules to be placed in book form which will lead up to this conclusion, and it will be kept and retained at the time the audits are made, and at the time the different receipts are reported through the office. I will say further, that we have adopted recently an ordinance which requires the auditor of the city to keep his accounts in accordance with the recommendations, rules, and desires of the Census Bureau, and to make his report to the citizens on that line. This ordinance, I take from my conversation with quite a number of the members of this conference, will be of material assistance in quite a number of instances. For example: One member of the conference stated to me to-night that a very great difficulty he had was not in receiving the daily receipts from the Treasury Department, but having those receipts present in a classified form. The ordinance to which I refer requires that very thing. Now, that is simply one point that one member brought up. There may be other points which will strike other members and, as I say, I have already prepared some schedules which can be used in the office from day to day. As I said before, to go into it with very much detail would require too much time, but if there are any questions, I will be only too glad to answer them.

The Chairman. If any are interested in the general subject, I will say that there are lying upon the desk here some dozen reports of the city of Minneapolis that contain a balance sheet to which our friend, Mr. MacInnes, took exception, and if you have not seen them and would like to, you may take these reports until they are exhausted.

Is there any further discussion of this or any other subject to bring before the conference?

Mr. AUSTIN. I would like to ask Mr. MacInnes a question. I want to say that the logic of his paper appeals to me very strongly, but, as I recollect it, the people of the state of New York at the last general election passed an amendment to the constitution. As Mr. MacInnes states, the general rule of the debt limit in the state of New York is 10 per cent of the assessed valuation, but with this constitutional amendment they passed a constitutional amendment which exempted from that 10 per cent limitation the capacity of the city of New York to borrow money, I think, for the purpose of giving it power to extend its water supply. Is that so, Mr. MacInnes?

Mr. MACINNES. Yes, sir.

Mr. AUSTIN. As I understand it, there is now no limit upon the city of New York other than the fact that it may not be able to borrow more than is safe.

Mr. MACINNES. For the water system.

Mr. AUSTIN. The assets of the city of New York, according to Mr. MacInnes, are 10 per cent of the valuation of real estate, plus whatever it may be able to borrow. Is that so?

Mr. MACINNES. All water bonds of the city of New York issued subsequently to the 1st day of January, 1906, will be exempt or fall without the pale of the 10 per cent limit. It would not alter one iota the principle enunciated in the balance sheet. It would simply mean this: If your bonded debt were $600,000,000, and you had, as we have to-day (I am speaking in round figures), $175,000,000 of that in your sinking fund, and in addition there were $10,000,000 of the water bonds issued after the 1st of January, they would simply be deducted from the total net bonded debt, the same as our sinking fund holdings are now. If you had $600,000,000 of the debt and had $180,000,000 of that in your sinking fund, that would give you a net debt of $420,000,000. If there were $10,000,000 of the bonds issued subsequently to the 1st of January, 1906, there would be a further reduction, making you a net debt of $410,000,000.

Mr. AUSTIN. The city of New York, then, may borrow an unlimited amount for water extension—that is, its assets are 10 per cent of its assessed valuation of real estate, plus an unlimited amount for water extension.

Mr. MACINNES. Its assets are 10 per cent of its real estate subject to taxation, and for water purposes all that investors are willing to loan.

Mr. AUSTIN. That is it exactly.

Mr. MACINNES. How can you determine that amount for your balance sheet? The only way is to make a statement of facts without indulging in speculation. Every million dollars you issue for the

city of New York curtails its legal right to borrow for anything else, but the question of its ability to borrow, its actual ability to borrow, would be determined by the lenders.

Mr. AUSTIN. I understand that very well. You deduct your bonds issued for water purposes, and you say you would place on the one side of the balance sheet 10 per cent of the assessed valuation as assets of the city. Now, is there something in addition to that?

Mr. MACINNES. No other assets.

Mr. AUSTIN. Yes; but you have additional assets. You may borrow if you can.

Mr. MACINNES. Your additional asset is shown by a reduction of your liability. This liability is not contracted to the legal borrowing capacity. It clearly shows at once that in addition to the 10 per cent of assessed valuation you had at least $10,000,000 for water purposes, and if you could acquire $10,000,000 more, it proves that you have $10,000,000 more additional value of credit, but you can not place on the balance sheet any speculative value. You must confine yourself to the facts in the case.

Mr. AUSTIN. Certainly.

Mr. TRACY. I did not speak of all the peculiar features of the Ohio laws. The two cities of Mansfield and Portsmouth have about the same population and the same duplicate value, or the same restrictions as to bonded indebtedness, which is not a constitutional restriction but a statutory one which the legislature may change next year, and it is proposed to raise it to 12 per cent. Besides, the people have a right by vote to increase their borrowing capacity. Taking the two cities, Mansfield and Portsmouth, having the same population and same duplicate value, if the people of Portsmouth are assessed to build a city hall costing $50,000 or $100,000, and they are bonded to the full amount of their limit, they can go before the people and raise that limit. Now, would you hold that by virtue of setting up an assessment the condition of Portsmouth is better than that of Mansfield; that by merely the people voting to incur more indebtedness, that city is in a better financial condition?

Mr. CHASE. Take the condition in New England. Take the city of Boston, for instance. The limit in the state of Massachusetts is 2.5 per cent of the valuation, as determined over a series of three years, but the actual debt of Boston is over 5 per cent. If you set up that limitation and set up the actual debts on the other side, you will have a deficit.

Mr. FROST. Mr. Chairman, do I understand Mr. MacInnes to say that you put down on one side the 10 per cent as the amount to be legally borrowed, and in addition to that you put down only bonds issued since 1906?

Mr. MacInnes. No; on the one side 10 per cent was assessed upon the taxable value of real estate subject to taxation. We will assume that was $600,000,000; that is the asset; on the other side you have a total bonded debt already issued of $600,000,000, of which, however, the sinking fund of the city itself holds $180,000,000. The net debt, then, of the city is $420,000,000, and if there were no other complications, its legal borrowing capacity would be the difference between the net bonded debt on the one hand and 10 per cent of the real estate value on the other. If we assume that of the $600,000,000 there were $10,000,000 of water bonds issued the first day of January of this year, then in addition to total bonded debt of $600,000,000, less $180,000,000 held by our sinking fund, making a net bonded debt of $420,000,000, we also had to deduct from that the $10,000,000 of water bonds issued since January 1 under the provision of a section of the constitution which eliminates them from consideration in the bonded debt, that would raise our legal capacity to borrow $10,000,000 more, and the difference between $410,000,000 of liabilities on the one side and $600,000,000 of assets on the other would be $190,000,000, and that would be our legal borrowing capacity at this time. I hope that I have made the situation clear.

Mr. Betz. Mr. Chairman, from the standpoint of a city comptroller, not an accountant, I hold that the duties of city comptrollers are to make reports to the taxpayers of their respective cities and to make them in such a concise and simple way that all can understand. The government of cities is of a paternal nature, simply collecting money from its citizens and expending it again. A commercial accountant must work along different lines. The energies of a corporation or a private institution are all directed toward making money. In other words, all advances made in commercial accounting are focused on the profit and loss account, but in municipal accounting, there being no profit and loss account, we must work along entirely different lines, and for that reason I do not believe in the usual saying that they must have business methods in public offices, for I believe there is more necessity for us to have public methods in public offices. I therefore think that all expert accountants should take such a tack in regard to making up new forms and new schedules in public accounting.

Mr. MacInnes. I wish to say that I am heartily in accord with all that you have said. I am glad to see that the principle advocated two years ago is beginning to bear fruit. The municipalities have not entered into business for profit. Therefore they are entirely different from a private trust, and I am glad to see that they lead up to entirely different conclusions. It is an entirely different corporation from that of a trust, and I am glad to see that the comptroller of one of our cities realizes the truth.

Mr. Wilson. We do sell things once in a while, but I do not want to get into a discussion. We have a system that is fairly good.

The Chairman. Is there any further discussion?

Doctor Hartwell. Lest silence should be interpreted as consent, I want to say a few words as to the terms "ordinary" and "extraordinary." I hold that they are very good terms, having been developed out of the fiscal experience of European states and cities and having been used in the French official reports, for instance, for at least sixty years. The reports of the city of Paris are drawn up on the basis of ordinary and extraordinary receipts and expenditures and are required by public law to be so drawn up. It is possible to cite the legal definitions of those terms. Again, if you will take the trouble to study the accounts of Berlin, you will find the same terms in use. You will find them too in reports of quite a number of British cities. Their significance and use are discussed at length and with great skill and acumen by Prof. Adolf Wagner in his "Finanz Wissenschaft." Those who use them are in very good company, it seems to me.

Mr. Henderson. Mr. Chairman, before this meeting adjourns I would like to say to the gentlemen who are present that we came here at the invitation of the Government through the Census Bureau. We have met with the officials of the Census Bureau and we feel that we have come nearer to the Census Bureau than ever before. I believe that it is becoming in us at this time to return a vote of thanks to the gentlemen who called this meeting, and particularly to the gentleman who has so ably and so fairly and so untiringly presided over this conference. [Applause.] I make this as a motion.

Mr. MacInnes. I second the motion.

Mr. Henderson. As the motion has been seconded, as many of you who favor the same will please rise. A rising vote, if you please. [Prolonged applause.]

Mr. Chairman, I have the honor to advise you that the motion has been carried unanimously.

The Chairman. Gentlemen, I hardly know how to express the kindly feeling that I find between myself and all the fiscal officers, not only those present but those of other cities. As I said at the opening of my remarks with reference to our work, it would have been impossible for the Census Bureau to realize the success it has attained in this field without the active cooperation, the kindly sympathy, and the courteous way in which you have treated not only the head of our Office, but all its subordinates. It is not simply the cordiality and kindly feeling that you have expressed for them that I am grateful for, personally, and wish to thank you for, but permit me again to thank you still more heartily for the kinder and more valuable, because continuous, cooperation and kindness and courtesy which have sprung up in connection with our work, with your work, throughout the cities of this country. May the work you are engaged in, and I am now engaged in, meet the hearty approval of all. May

you be largely successful therein and blessed in all your undertakings. I thank you. I wish to add that in expressing this I voice the sentiments of Director North.

Mr. HENDERSON. I move that we adjourn.

Mr. MACINNES. Before adjourning I should like to express to you and to Mr. Momsen and his staff my personal appreciation of their courtesies and many kindnesses to us during the conference. I wish through you to thank them personally and to express my appreciation of their courtesy.

Mr. HENDERSON. I second that motion, that a vote of thanks be extended to the corps of assistants.

The CHAIRMAN. You have heard the motion. All in favor will signify the same by saying "Aye;" contrary, "No." The motion prevails.

Mr. HENDERSON. While the votes of thanks are going around, I wish to say that there is one painstaking official of this conference who has not yet been mentioned. I move that the thanks of the conference be extended to the secretary for the able performance of the duties of his office, and to add that we wish him God speed on his way to Boston.

The CHAIRMAN. All in favor will signify the same by saying "Aye;" contrary, "No." The motion prevails. I know that comes from the heart.

Doctor HARTWELL. Mr. Chairman and gentlemen, I am very much obliged to you for your vote of thanks. The work that I have been doing is of a quiet sort, and it ill becomes me in this hour, after the eloquent remarks made by the presiding officer, to attempt to express my feelings; but I have to thank you for the privilege of wielding a "blue pencil" at no distant day. I feel that Mr. Powers, as chairman of this conference, will be able to publish the proceedings of the conference much more promptly than was the case two years ago. I am confident that the well-arranged and well-executed plans of Mr. Momsen and his staff will tend to reduce the work of preparing the proceedings many fold.

I trust that I shall be in good health when I reach Boston. While it is true that Boston is said to be not a locality, but a state of mind, it has corporal limits which I hope to be able to recognize when I land there.

The CHAIRMAN. I will now put the motion to adjourn. All in favor will signify the same by saying "Aye;" contrary, "No." The motion prevails.

(The conference then dissolved.)

Attest:

EDWARD M. HARTWELL, *Secretary.*

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